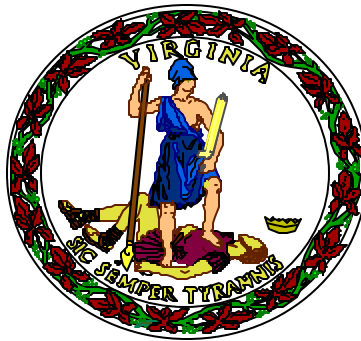


# **Financial Management Standards Guide For Community Service Boards**

**Third Edition  
(Revised September 2003)**



**James S. Reinhard, M.D.  
Commissioner**

**Published by the  
Virginia Department of Mental Health, Mental Retardation  
and Substance Abuse Services  
Division of Financial Administration  
Office of Financial Reporting and Compliance**

**(804) 786-5025  
[www.dmhmrzas.state.va.us](http://www.dmhmrzas.state.va.us)**

## **Table of Contents**

Preface, 3

Acknowledgement, 4

Record of Changes, 5

Chapter 1: General Information, 8

Chapter 2: Budgeting and Funding Cycle, 24

Chapter 3: Responsibilities for Financial Management, 37

Chapter 4: Internal Control, Fraud Reporting, and Financial Review Process, 44

Chapter 5: Financial Reporting, 53

Chapter 6: Federal Grants Management, 60

Chapter 7: Fixed Asset Management, 62

Chapter 8: Cash Management, 72

Chapter 9: Audit Requirements for CSBs and CSB Contract Agencies, 86

Chapter 10: CSB Contract Agencies, 95

Chapter 11: Tax Considerations, 100 (Release date TBA)

Chapter 12: Cost Savings Opportunities, 101 (Release date TBA)

Web Site References, 102

Subject Index, 103

Appendices, 104

## **Preface**

This revised guide is designed to be used by Community Services Boards as a tool in financial management and as a mechanism to communicate the financial policies set forth by the State Board and the Department of Mental Health, Mental Retardation and Substance Abuse Services. (Refer to Appendix A in the back of the guide). The revised guide is designed to provide direction in a user-friendly format. It supercedes *Financial Management Standards for Community Services Boards (July, 1994)*.

This third edition of the *Financial Management Standards for Community Services Boards* has been revised to reflect current accounting changes and suggestions. Several changes (including additional and revised information) have been made to specific chapters as considered applicable. These changes are noted in the *Record of Changes* section beginning on Page 5. One major change to note is in reference to the *CSB Audit Guide*, which will no longer be issued separately. Relevant information in reference to the audit guide has been incorporated into Chapter 9, *Audit Requirements for CSBs and Contract Agencies*, of this guide. The guide is posted on the Department's website at **[www.dmhmrzas.state.va.us](http://www.dmhmrzas.state.va.us)**.

The Office of Financial Reporting and Compliance (OFRC) will make revisions as they occur. Finance directors of CSBs and CSB Contract Agencies will be notified via e-mail when changes occur. Affected Table of Contents and Appendices will also be revised as necessary. All changes, revisions, and updates will be posted on the Department's website at **[www.dmhmrzas.state.va.us](http://www.dmhmrzas.state.va.us)**.

The Department, through the State Board, has statutory authority to promulgate fiscal standards that ensure appropriate spending, recording, and reporting of revenues that it passes to the CSBs. As such, the Department has oversight responsibility for the management of state and federal funds passed on to CSBs. (Refer to the section, *Statutes and State Board Policies*, in Chapter 1, *General Information*). The Department's role is to promote sound financial management.

The intent of this guide is not to duplicate information presented in other CSB publications. Where applicable, this guide will refer users to other sources for useful information, including the Commonwealth of Virginia, federal, and other web sites. A general listing for various web sites and other additional information is shown in the back of the guide. The users of this manual should have current and up-to-date information at their disposal. By referencing information at various web sites, users can be reasonably sure that such information is the most current available. Users are also encouraged to contact the Office of Financial Reporting and Compliance whenever assistance is required.

References to "policy" in this manual do not refer exclusively to State Board policy. Readers should be aware that policy exists at many levels and "policy" as it appears in this guide must be assessed within the context of the reference in which it appears.

## **Acknowledgement**

The Office of Financial Reporting and Compliance (OFRC) is appreciative of all the individuals who provided comments and suggestions in the development of this document. We encourage continuous feedback and input so that the next edition can be improved even further. Readers and users of this guide may forward their comments and suggestions to us as noted below.

Department of Mental Health, Mental Retardation and Substance Abuse Services  
Office of Financial Reporting and Compliance (OFRC)

Ken Gunn, Director

P.O. Box 1797

1220 Bank Street

Richmond, VA 23218-1797

Telephone: 804-786-5025

Fax: 804-692-0076

E-mail: [kgunn@dmhmrsas.state.va.us](mailto:kgunn@dmhmrsas.state.va.us)

## **Record of Changes: 1994 Guide vs. Revised Guide**

- Chapter 1:     *Introduction to the Guide:* This chapter was discontinued in the revised edition. Introductory information is now included in the *Preface*. Other information is included in various chapters as applicable. Chapter 1 in this revised guide is now titled *General Information*. This chapter will contain information of a general and miscellaneous nature. Information that does not compliment specific subject matter in a particular chapter will be in this chapter.
- Chapter 2:     *Budgeting and Funding Cycle:* The title did not change from the 1994 edition. However, this chapter has been completely revised.
- Chapter 3:     *Responsibilities for Financial Management:* The title did not change from the 1994 edition. However, additional and/or revised information has been added.
- Chapter 4:     *Internal Control & Fraud Reporting:* The title changed from the 1994 edition to (*Internal Control, Fraud Reporting, and Financial Review Process*). Additional and/or revised information has been added.
- Chapter 5:     *Accounting Standards:* This chapter was discontinued. However, relevant sections have been maintained in this revised edition as part of various chapters. Refer to the subject index by desired topic for additional information.
- Chapter 6:     *Federal Grants Management:* The title did not change from the 1994 edition. However, additional and/or revised information has been added.
- Chapter 7:     *Fixed Asset Management:* The title did not change from the 1994 edition. However, additional and/or revised information has been added.
- Chapter 8:     *Cash Management:* The title did not change from the 1994 edition. However, additional and/or revised information has been added.
- Chapter 9:     *Audit Requirements for CSBs and Contract Agencies:* The title did not change from the 1994 edition. However, additional and/or revised information has been added.
- Chapter 10:    *Contract Agencies:* The title did not change from the 1994 edition. However, additional and/or revised information has been added.
- Chapter 11:    *Recognition for Effective Financial Management:* This information has been

discontinued. Chapter 11 is now titled *Tax Considerations* in this current edition.

- Chapter 12: *Financial Review Process:* The financial review process is included in Chapter 4 of this edition. Chapter 12 is now titled *Cost Saving Opportunities*.
- Appendix A: *Technical Bulletins:* This information is included in Chapter 1 of this revised edition.
- Appendix B: *Code of Virginia:* This information is included in Chapter 1 section, *Code Reference for CSBs*.
- Appendix C: *State Board Policies:* This information is included in Chapter 1 section, *Policy References*.
- Appendix D: *Internal Control Questionnaire:* This appendix was discontinued.
- Appendix E: *Procedures for Preparation of Financial Statements in Accordance with Generally Accepted Accounting Principles (GAAP):* This appendix was discontinued.
- Appendix F: *Model Fund Accounting General Ledger System:* This appendix was discontinued.
- Appendix G: *Application of Cost Accounting to CSBs:* This appendix was discontinued.
- Appendix H: *Applications for Activity Based Costing:* This appendix was discontinued.
- Appendix I: *Grant Restrictions and Management:* This appendix was discontinued.
- Appendix J: *Record Retention and Disposal:* This information is included in Chapter 1 section, *Records Management*.
- Appendix K: *IRS Form 1099 Requirements:* This appendix was discontinued.
- Appendix L: *Prompt Payment Compliance:* This appendix was discontinued.
- Appendix M: *Unclaimed Property Act Compliance:* This information is included in Chapter 1 section, *Unclaimed Property*.
- Appendix N: *Sample Fiscal Officer's Work Plan:* This appendix was discontinued.
- Appendix O: *Model Request for Proposal - Audit Services:* This appendix was discontinued.

Refer to Chapter 1 section, *Technical Bulletins*.

Appendix P: Cost Allocation Model: This appendix was discontinued. Refer to Chapter 5 section, *Uniform Cost Reporting Model*.

Appendix Q: *OMB Circulars A-128 and A-133*: This appendix was discontinued.

Appendix R: *Core Services Taxonomy V*: This appendix was discontinued. Refer to Chapter 5 section, *Uniform Cost Reporting Model*.

Appendix S: *Table of Contents of Other CSB Related Manuals*: This appendix was discontinued.

### **Record of Recent Changes**

	<b>Release Date</b>	<b>Changes</b>
1	October 2002	Tax Status of CSBs
2	October 2002	Government Health Care Model Changed to Enterprise Model
3	March 2003	Updated Chap 4-Fraud Reporting Section
4	June 2003	Revised Capital Lease Section
5	September 2003	Added Chapter 8 - Cash Management (new material)

### **Other Changes**

A subject index is included in the back of the revised edition and should be referenced for additional information. We have also added a list of web site addresses for easy reference.

## **Chapter 1: General Information**

### **Table of Contents**

#### DMHMRSAS Office Functions:

- Budget Office, 9
- Office of Grants Management, 9
- Financial Services Office, 10
- Office of Financial Reporting and Compliance, 10
- Reimbursement Office, 12
- Administrative Services Office, 12
- Human Resources Office, 13
- Community Services Administration Office, 14
- Office of Information Technology (ITS), 14

#### General Information Topics:

- Statutes and State Board Policies, 15
- Code References for CSBs, 15
- Technical Bulletins, 17
- Records Management, 17
- Unclaimed Property, 18
- Tax Status of CSBs, 19
- Definitions, 22



## **DMHMRSAS Office Functions**

**Introduction** This section presents the missions and functions of offices of the Department that regularly assist CSBs on an administrative basis. Descriptions of various offices are shown below.

### **Budget Office**

**Overall Mission** The Budget Office's overall mission is the development, execution, and implementation of the Department's budget in compliance with state and federal requirements.

**CSB-related Functions** This office assists CSBs in these areas:

- Develops general fund budgetary amounts to be included in the Letter of Notification
- Monitors general assembly legislative actions affecting CSB budgets
- Develops and maintains the CSB fund tracking and forecasting system for the Community Medicaid MR Waiver program

**Department-related Functions** This office performs the following Department-related functions:

- Monitors the Department's budget against actual revenues and expenditures
- Manages cash flow for the Department, as a whole, including facilities
- Projects revenue collections annually and for future periods in conjunction with the Reimbursement Office
- Develops and monitors the DMHMRSAS biennium budget

### **Office of Grants Management**

**Overall Mission** Grants Management's overall mission is to provide financial management services to:

- DMHMRSAS Central Office
- CSBs

**CSB-related Functions**

This office assists CSBs in these areas:

- Prepares and sends Letters of Notification with narrative from Office of Community Contracting
- Monitors and funds CSB allocations of state and federal funds as specified on warrants
- Makes funding adjustments for Medicaid match changes
- Prepares semi-monthly payments of funding allocations to each CSB
- Develops and approves performance reports, performance contracts and revisions (fiscal portion)
- Provides technical assistance to CSBs in matters concerning quarterly report preparation and performance contract preparation and other fiscal matters
- Monitors compliance with grant restrictions
- Develops and monitors federal funds budgets
- Prepares the Central Office Schedule of Expenditures of Federal Awards

**Financial Services Office**

**Overall Mission**

The Financial Services Office's overall mission is to provide financial management services to the Central Office.

**Department-related Functions**

This office performs the following department-related functions:

- Fixed asset management
- Reconciliation of the Department's Financial Management System (FMS) with the Commonwealth's Accounting and Reporting System (CARS)
- Payment of all Central Office related accounts payable vouchers
- Payroll processing for Central Office staff

**Office of Financial Reporting and Compliance**

**Overall Mission**

The Office of Financial Reporting and Compliance's overall mission is to provide:

Technical assistance to CSBs and facilities in the areas of financial systems, financial management, and financial reporting

- Departmental financial reporting, periodically and annually
- Ensure compliance with federal and state audit requirements
- Develop and maintain financial management policy direction for CSBs, facilities, and Central Office
- Issuance and maintenance of *Financial Management Standards Guide* for CSBs

**Department-  
related  
Functions**

In order to fulfill its mission, the office:

- Provides facilities and Central Office with direction and support for the utilization and operation of the statewide Financial Management System.
- Prepares agency financial statements in accordance with Generally Accepted Accounting Principles (GAAP) and consolidate all Department of Accounts (DOA) financial reporting requirements, which included the development of an annual financial report.
- Performs sub-recipient monitoring of federal funds, via the performance of routine CSB financial reviews.
- Develops guidelines for CSB and contract agency audits and reviews and monitors audits and plans of correction for the 40 CSBs and their related contract programs.
- Coordinates and monitors the plan of correction for the Central Office and 15 State Facilities as developed in response to the audits performed by the State Auditor of Public Accounts (APA).
- Produces monthly consolidated financial statements and reports for senior management and staff.
- Develops and maintains financial policy for the facility and CSB system. This includes the following key areas:
  1. GAAP basis financial reporting
  2. Internal control methods
  3. Cost accounting
  4. Automated financial management systems
  5. State and federal compliance

## **Office of Reimbursement and Cost Accounting**

<b>Overall Mission</b>	The Reimbursement Office's overall mission is the identification and collection of all charges due to the Department for the delivery of service.
<b>CSB-related Functions</b>	<p>This office assists CSBs in such areas as:</p> <ul style="list-style-type: none"><li>▪ Issuance and maintenance of the <i>Reimbursement Policies and Procedures for CSBs</i> manual</li><li>▪ Periodic reimbursement reviews resulting in recommendations for improvements in collection management</li><li>▪ Technical assistance to CSBs in matters concerning the debt set-off program, provider policies and procedures and collection management</li></ul>
<b>Department-related Functions</b>	<p>This office performs the following Department-related functions:</p> <ul style="list-style-type: none"><li>▪ Centralized accounts receivable management and collection relative to DMHMRSAS operated facilities</li><li>▪ Technical assistance to the facilities in the areas of the debt set-off program, provider policies and procedures, collection management, and the Federal Benefit Deposit System</li><li>▪ Issuance of policies and procedures guidance to the facilities</li><li>▪ Serves as primary liaison to the Va. Department of Medical Assistance and Department of Social Services, Medicare, intermediaries, patient payers and federal benefit agencies</li><li>▪ Preparation of annual Medicare and Medicaid cost reports for state facilities</li><li>▪ Establishment of change rates for facility services</li></ul>

## **Administrative Services Office**

<b>Overall Mission</b>	The Administrative Services Office's overall mission is the provision of administrative support services, procurement and contracting services, and the development of departmental instructions and policy.
<b>CSB-related Functions</b>	<p>This office assists CSBs in the following areas:</p> <ul style="list-style-type: none"><li>▪ Issuance and maintenance of <i>CSB Procurement Procedures Manual</i></li><li>▪ Procurement training</li><li>▪ Technical assistance to CSBs in the following areas:</li></ul>

- Procurement and contracting
- Insurance and risk management
- General administrative processes

**Department-related Functions**

This office performs the following Department-related functions:

- Technical and direct assistance to facilities and central office personnel in the areas of general services, administration, contracting and procurement
- Procurement dispute resolution
- Minority business development
- Facilitate cooperative or group purchases of goods and services
- Real property management
- Travel, transportation and insurance
- Prepare regulations, departmental instructions, and maintain the *Standard Administrative Practices and Procedures Manual* and other policy and procedural documents

## **Human Resources Offices - CSB Services Section**

**Overall Mission**

The Human Resources CSB Services Section's overall mission is technical assistance to CSBs in human resource management to promote compliance with federal and state laws.

**CSB-related Functions**

This section of the Human Resources Office assists CSBs in such areas as:

- Issuance and maintenance of policies and procedures guidance
- Equal employment opportunity and affirmative action compliance
- Human resource management issues such as:
  1. Classification and compensation
  2. Recruitment and selection
  3. Benefits administration
  4. Employee relations, evaluations, and grievance procedures
  5. Training programs

## **Community Services Administration Office**

### **Overall Mission**

The Community Services Administration Office's overall mission is to provide administrative guidance and assistance to CSBs to support the provision of effective mental health, mental retardation and alcohol and drug services to residents of the Commonwealth. This involves coordination with the Department's disability offices, Office of Grants Management, and Information Systems Office.

### **CSB-related Functions**

This office is the primary point of contact between the Department and the CSBs on administrative and performance contract accountability issues. Office responsibilities include:

- Negotiate original and revised performance contracts
- Evaluate, review, and report on the operation of the CSBs boards of directors and the general administrative and management operations of the CSBs
- Monitor/assess accomplishment of contract objectives and compliance with contractual assurances
- Provide CSB board member and new Executive Director orientations and continuing education materials to CSBs
- Represent the Department at meetings with the Virginia Association of CSBs, regional CSB associations, and individual boards
- Advise, consult with, guide, and direct, as appropriate, CSB board members, executive directors and senior management staff on administrative and management policies, procedures, issues and operations
- Review CSB plans and analyze CSB data
- Provide assistance and support to CSBs in the recruitment of executive directors

## **Office of Information Technology Services (ITS)**

### **Overall Mission**

The ITS Office's overall mission is technical assistance to CSBs in information systems management and statistical reporting.

### **CSB-related Functions**

This office assists CSBs in the following areas:

- Issuance of reporting information for CSBs
- Maintenance of CSB quarterly report data base

- Maintenance of Medicaid remittance data base
- Preparation and dissemination of statistical reports from the data base
- Technical assistance to CSBs in the areas of:
  1. Data requirements
  2. Data processing related acquisition
  3. Systems support and design
  4. Telecommunications
  5. Quarterly report automation
  - Telecommunications
  - Quarterly report automation

## **General Information Topics**

<b>Introduction</b>	This section presents information of a general nature for the CSBs. Various topics of interest to the CSBs are noted below.
<b>Statutes and State Board Policies</b>	The Statutes of Virginia in Title 37.1-3 created the State Mental Health, Mental Retardation and Substance Abuse Services Board consisting of nine members appointed by the Governor and confirmed by the General Assembly. The Board has the power to develop and establish programmatic and fiscal policies governing the operation of state hospitals and community services boards. Both the <i>Code of Virginia</i> and State Board policy address community services boards. The <i>Code of Virginia</i> addresses community services boards in Chapter 10 of Title 37.1, entitled <i>Community Mental Health, Mental Retardation and Substance Abuse Services</i> .
<b>Code References for CSBs</b>	<p>Title 37.1, <i>Institutions for the Mentally Ill; Mental Health Generally</i>, of the Code of Virginia provides guidance for community services boards. Specifically, Chapter 10, <i>Community Mental Health, Mental Retardation and Substance Abuse Services</i>, §§ 37.1-194 through 37.1-202.1 of this title enumerates on relevant information pertaining to CSBs. Each code section of Chapter 10 relative to CSBs is summarized below.</p> <ul style="list-style-type: none"> <li>▪ <u>37.1-194</u>: Purpose; services to be provided</li> <li>▪ <u>37.1-194.1</u>: Definitions</li> <li>▪ <u>37.1-195</u>: Community services board; appointment; membership; duties of fiscal agent</li> <li>▪ <u>37.1-196</u>: Same; term; vacancies; removal</li> <li>▪ <u>37.1-196.1</u>: Compensation of board members</li> <li>▪ <u>37.1-197</u>: Community services boards; local government department; powers and duties</li> </ul>

- 37.1-197.2: Background checks required
- 37.1-198: Performance contract for mental health, mental retardation and substance abuse services
- 37.1-199: Mental health, mental retardation and substance abuse services; allocation of funds by Department; withdrawal of funds
- 37.1-200: Same; withdrawal of county or city from program

The following sections of Chapter 10 of Title 37.1 of the *Code* relate specifically to financial matters.

- 37.1-195: Community services boards; appointment; membership; duties of fiscal agents.
- 37.1-196.1: Compensation of board members.
- 37.1-197: Community services boards; powers and duties.
- 37.1-198: Mental health, mental retardation and substance abuse programs; approval of plans and budget; application for grant.
- 37.1-199: Mental health, mental retardation and substance abuse programs; allocation of funds by Department; withdrawal of funds.
- 37.1-202.1: Liability for expenses of services.

### State Board Policy

The State Board is authorized by Statute (Section 37.1-3) to develop policy to be administered through the Department.

State Board Policies are arranged numerically by classification. Classifications are represented in thousands. Policies relative to CSBs are found under classifications #4000 and #6000. Adoption of sequences within a classification is chronological (i.e., 4001, 4002, etc.)

### Policy References

The following sections of the State Board Policy relate specifically to fiscal matters.

Policy Number	Subject
4006(CSB) 81-2	Liability Insurance Protection for Community Services Boards
4010(CSB) 83-6	Local Match Requirements for Community Services Boards
4018(CSB) 86-9	Community Services Boards Performance Contracts
4021(CSB) 86-18	Evaluation of Community Services Boards Administration and Programs



4028(CSB) 88-1	Communication with Community Services Boards and Their Contract Agencies
6000(FIN) 77-1	Central Office Pharmacy Fees
6002(FIN) 86-14	Services Availability and Ability of Client to Pay Philosophy
6003(FIN) 87-5	Community Services Boards Financial Management
6004(FIN) 87-6	Community Services Boards Funding Allocation System
6005(FIN) 94-1	Retention of Unspent funds by Community Services Boards

### Current Technical Bulletins

Technical bulletins are issued periodically by the Office of Financial Reporting and Compliance. These bulletins cover a variety of topics and are issued to provide technical assistance to the CSBs. OFRC has issued two technical bulletins to date as shown below.

1. Technical Bulletin 2000-01, Model RFP for Audit Services, issued July 2000
2. Technical Bulletin 2000-02, Model RFP for Banking Services, issued July 2000

These bulletins are on our web site at the address below. Additional technical bulletins developed will also be posted on our web site.

**<http://www.dmhmrzas.state.va.us/OFRCpub.htm>**

## **Records Management**

**Requirement** The *Code of Virginia* (§42.1-85) requires each state agency and local government including CSBs to:

1. have an active program for economical and efficient management of its records.
2. obtain approval from the Virginia State Library and Archives (VSLA) prior to record destruction on Form RM-3, *Certificate of Records Disposal*, for those records listed in General Schedule No. 18. (Refer to the next section).
3. designate a Records Manager in writing to the Head of the Records Management Section of the VSLA.

### Records Retention

The Records Management and Imaging Services Division (RMISD) of the Library of Virginia offers a range of services to support the efficient and economical management of state and local government records. The

division consists of four units: the Record Analysis Section, the State Records Center, the Circuit Court Records Preservation Program and the Imaging Services.

Several schedules are provided under the provisions of the Virginia Public Records Act, Sections 42.1-76 et seq. *Code of Virginia* for the retention and disposition of records. These schedules can be accessed on line at the address below.

**<http://www.lva.lib.va.us/state/records/schedule/local-gs.htm>**

General Schedule No. 18 titled, *Community Services Boards*, should be of particular interest to CSBs. The next section provides examples of record retention periods.

### Examples

The following examples are specific record retention requirements of some of the more common documents.

Record Description	Retention Period	VSLA General Schedule #
Client Case Files - Juveniles	10 years after last treatment or until juvenile reaches age of 23, whichever is greater, then destroy	#18
Client Case Files - Adults	10 years after last treatment, then destroy	#18
Payroll Registers	5 years after audit, then destroy	#2
Purchase Orders, Requisitions, and Bid Documents	5 years after audit, then destroy	#2
Employment Applications	3 years, then destroy	0
Reimbursement Records and Records	3 years after audit, then destroy	#2
Accounts Payable Vouchers	5 years after audit, then destroy	#2
Bank Statements and Canceled Checks	5 years after audit, then destroy	#2

## **Unclaimed Property**

### **What is Unclaimed Property?**

Unclaimed Property is all tangible or intangible property that has remained unclaimed by its owner for an extended period of time. This includes but is not limited to savings and checking accounts, wages or commissions, underlying shares, dividends, customer deposits, credit balances, gift certificates, credit memos, refunds, etc. In accordance with the Uniform

Disposition of Unclaimed Property Act, Title 55, Chapter 11.1 §§ 55-210 – 555/210.30 of the *Code of Virginia*, property becomes unclaimed when the holder has not had contact with the owner of the property for a specified period of time. After the passage of the dormancy period, if there has been no activity generated by the owner, the property is then considered abandoned.

**Unclaimed  
Property  
Division**

The Unclaimed Property Division (UCP) of the Virginia Department of Treasury administers and promotes compliance with the Uniform Disposition of Unclaimed Property Act. Additional information can be found on line at the address below.

**<http://www.trs.state.va.us/UCP/ucp.html>**

**Reporting  
Process**

Businesses including CSBS are required to file an annual unclaimed property report. As stated in §55-210.12, Item D, “The report and remittance shall be filed before November 1 of each year as of June 30 next preceding, but the report and remittance of insurance corporations shall be filed before May 1 of each year as of December 31 next preceding.” Negative reports are not required by the state of Virginia (i.e., a report is not required unless there is information to report). Businesses uncertain as to whether or not the Act applies to them, should contact the UCP office for assistance. This office can be reached at: **[ucpmail@trs.state.va.us](mailto:ucpmail@trs.state.va.us)** of **1-800-468-1088**.

## **Tax Status of CSBs**

**Utility Taxes**

Community Services Boards were established under Title 37.1, *Institutions for the Mentally Ill; Mental Health Generally*, §37.1-194 of the *Code of Virginia*. Based on this code provision, “Every county or city or combination of cities or counties and cities shall establish a community services board”. CSBs are closely related to Commonwealth of Virginia agencies as opposed to local government agencies. CSBs are funded predominantly by state general funds, federal funds, Medicaid, and local government general funds. Because of this relationship, CSBs are exempt from payment of sales, telecommunication, utility, and fuel taxes. CSBs that have paid such taxes should apply for a refund of those taxes. Generally, CSBs can go back for the past 3 years to request such a refund. In some instances a CSB may realize significant cost savings by not paying utility taxes. See the next section below.

**Title 58.1  
Taxation**

Code of Virginia  
Chapter 29 “Electric Utility Consumption Tax”  
Title 58.1 – Taxation

§ 58.1-2900. Imposition of tax.

A. Effective January 1, 2001, there is hereby imposed, in addition to the local consumer utility tax of Article 4 (§ 58.1-3812 et seq.) of Chapter 38 and subject to the adjustments authorized by subdivision A 5 and by § 58.1-2902, a tax on the consumers of electricity in the Commonwealth based on kilowatt hours delivered by the incumbent distribution utility and used per month as follows:

1. Each consumer of electricity in the Commonwealth shall pay electric utility consumption tax on all electricity consumed per month not in excess of 2,500 kWh at the rate of \$0.00155 per kWh, as follows:

State Consumption	Special Regulatory	Local Consumption
Tax Rate	Tax Rate	Tax Rate
\$0.00102/kWh	\$0.00015/kWh	\$0.00038/kWh

2. Each consumer of electricity in the Commonwealth shall pay electric utility consumption tax on all electricity consumed per month in excess of 2,500 kWh but not in excess of 50,000 kWh at the rate of \$0.00099 per kWh, as follows:

State Consumption	Special Regulatory	Local Consumption
Tax Rate	Tax Rate	Tax Rate
\$0.00065/kWh	\$0.00010/kWh	\$0.00024/kWh

3. Each consumer of electricity in the Commonwealth shall pay electric utility consumption tax on all electricity consumed per month in excess of 50,000 kWh at the rate of \$0.00075 per kWh, as follows:

State Consumption	Special Regulatory	Local Consumption
Tax Rate	Tax Rate	Tax Rate
\$0.00050/kWh	\$0.00007/kWh	\$0.00018/kWh

4. The tax rates set forth in subdivisions 1, 2, and 3 are in lieu of and replace the state gross receipts tax (§ 58.1-2626), the special regulatory revenue tax (§ 58.1-2660), and the local license tax (§ 58.1-3731) levied on corporations furnishing heat, light or power by means of electricity.

5. The tax on consumers under this section shall not be imposed on consumers served by an electric utility owned or operated by a municipality if such municipal electric utility elects to have an amount equivalent to the tax added on the bill such utility (or an association or agency of which it is a member) pays for bundled or unbundled transmission service as a separate item. Such amount, equivalent to the tax, shall be calculated under the tax rate schedule as if the municipal electric utility were selling and collecting the tax from its consumers, adjusted to exclude the amount which represents the local consumption tax if the locality in which a consumer is located does not impose a license fee rate pursuant to § 58.1-3731, and shall be remitted to

the Commission pursuant to § 58.1-2901. Municipal electric utilities may bundle the tax in the rates charged to their retail customers. Notwithstanding anything contained herein to the contrary, the election permitted under this subdivision shall not be exercised by any municipal electric utility if the entity to whom the municipal electric utility (or an association or agency of which it is a member) pays for transmission service is not subject to the taxing jurisdiction of the Commonwealth, unless such entity agrees to remit to the Commonwealth all amounts equivalent to the tax pursuant to §58.1-2901.

6. The tax on consumers set forth in subdivisions 1, 2, and 3 shall only be imposed in accordance with this subdivision on consumers of electricity purchased from a utility consumer services cooperative to the extent that such cooperative purchases, for the purpose of resale within the Commonwealth, electricity from a federal entity that made payments in accordance with federal law (i) in lieu of taxes during such taxable period to the Commonwealth and (ii) on the basis of such federal entity's gross proceeds resulting from the sale of such electricity. Such tax shall instead be calculated by deducting from each of the respective tax amounts calculated in accordance with subdivisions 1, 2, and 3 an amount equal to the calculated tax amount multiplied by the ratio of the total cost of power supplied by the federal entity, including facilities rental, during the taxable period to the utility consumer services cooperative's total operating revenue within the Commonwealth during the taxable period. The State Corporation Commission may audit the records and books of any utility consumer services cooperative that determines the tax on consumers in accordance with this subdivision to verify that the tax imposed has been correctly determined and properly remitted.

**B.** The tax authorized by this chapter shall not apply to municipalities' own use or to use by divisions or agencies of federal, state and local governments.

**C.** For purposes of this section, "kilowatt hours delivered" shall mean in the case of eligible customer-generators, as defined in § 56-594, those kilowatt hours supplied from the electric grid to such customer-generators, minus the kilowatt hours generated and fed back to the electric grid by such customer-generators.

## **Tax Exempt Status**

CSBs are generally recognized as non-profit organizations and are not subject to federal or state income taxes. However, where a CSB has unrelated business income (UBIT), it may be subject to tax on such income. When this is the case, Form 990-T, *Exempt Organization Business Income Tax Return (and proxy tax under section 6033 e)* must be filed. Additional information on non-exempt status can be obtained by reviewing IRS Publication 557, *Tax Exempt Status for Your Organization*. This publication can be accessed online at [www.irs.ustreas.gov](http://www.irs.ustreas.gov).

## **Definitions**

<b>Administrative Policy CSBs</b>	The CSB does not employ its own staff. The CSB's Executive Director is hired by local government with the Board's participation. Services are provided by city or county employees or through contracts with other providers. Powers and duties are enumerated in Section 37.197B of the <i>Code of Virginia</i> .
<b>Operating CSBs</b>	The CSB employs its own staff and provides services directly or through contracts with other providers. It is not a city or county Government department. Powers and duties are enumerated in Section 37.197A of the <i>Code of Virginia</i> .
<b>Policy Advisory CSB</b>	The CSB has no operational powers or duties; it is an advisory board to a local government that provides services directly or through contracts with other providers. Powers and duties of the local department are enumerated in Section 37.197A of the <i>Code of Virginia</i> .
<b>Behavioral Health Authority</b>	A Behavioral Health Authority is a local agency established by a city or county under Section 37.1-241 et seq. of the <i>Code of Virginia</i> that plans, provides (directly or through contracts) , and evaluates mental health, mental retardation, and substance abuse services in the locality it serves.
<b>Sub-recipients</b>	<p>The characteristics of sub-recipients are as follows:</p> <ul style="list-style-type: none"><li>▪ Has performance measured against objectives of a federal program</li><li>▪ Has responsibility for programmatic decision-making</li><li>▪ Has responsibilities for adherence to federal program requirements</li><li>▪ Uses federal funds to carry out a program of organization as compared to providing goods and services</li><li>▪ Determines eligibility for federal financial assistance</li></ul>
<b>Vendors</b>	<p>Vendors have the following characteristics:</p> <ul style="list-style-type: none"><li>▪ Provides goods or services within normal business operations</li><li>▪ Provides similar goods to many different purchasers</li><li>▪ Operates in a competitive environment</li><li>▪ Provides goods or services that are ancillary to the operation of the federal program</li><li>▪ Not subject to federal compliance or DMHMRSAS requirements</li></ul>

<b>Contract Agencies</b>	See Chapter 10.
<b>Multi-jurisdiction CSBs</b>	CSBs that serve more than one locality
<b>Single Jurisdiction CSBs</b>	CSBs that serve only one locality. A CSB's financial activities are considered to be a department of a locality and are included in the audit report of the locality.

## **Chapter 2: Budgeting and Funding Cycle**

### **Table of Contents**

Introduction: Budgeting and Funding Cycle, 25

Budgeting and Funding Block Diagram, 26

#### **Letter of Notification**

- Mental Health Services, 27
- Mental Retardation Services, 28
- Substance Abuse Services, 29
- Purchase of Individualized Services, 30
- Special Projects, 31

Request For Warrant, 32-36



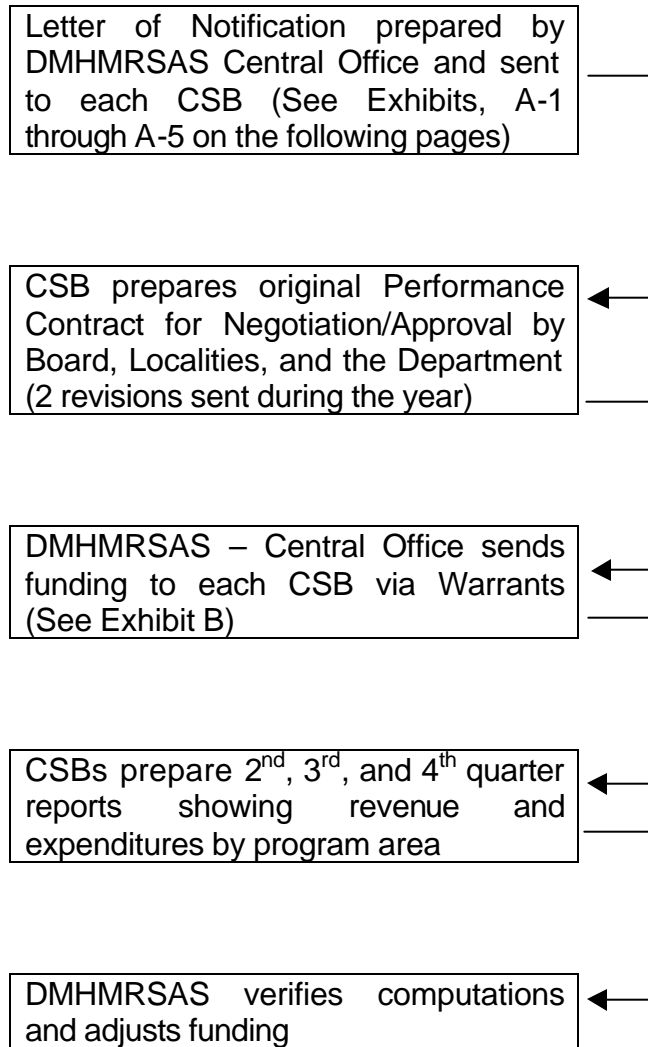
## **Budgeting and Funding Cycle**

<b>Introduction</b>	This chapter discusses the Department's financial relationship to CSBs and the documents involved in that relationship.
<b>Performance Contract</b>	<p>The Performance Contract* is the vehicle by which a CSB is accountable to the Department for the funds it receives from the Department and for the services it provides with those funds. The Performance Contract is prepared by the Office of Community Contracting (OCC) and is based on the current Core Services Taxonomy and on the Letter of Notification.</p> <p>The CSBs should complete Exhibit A and related forms to receive funding.</p>
<b>Budgeting and Funding Cycle</b>	The block diagram presented on the next page illustrates the CSB budget and funding cycle. Refer to the Performance Contract <i>Attachment 6.2.3, Performance Contract Process</i> , for more details.
<b>Core Services Taxonomy</b>	The Core Services Taxonomy 6** defines the service units and static capacities used to count and report in uniform terms of the variety of services provided under the Performance Contract. Taxonomy 6 defines and describes six core service categories and 32 sub-categories.
<b>CSB Letter of Notification</b>	The Letter of Notification informs the CSB of its allocation of state general funds and federal funds that pass through the Department.
<b>Request for Warrant</b>	This document is used by DMHMRSAS to process funding to CSBs on a semi monthly basis.

\*References to the Performance Contract in this chapter refer to the FY2002 Performance Contract. CSBs should have a copy of the Performance Contract on file.

\*\*Core Services Taxonomy 6 is found in *Attachment 5.2, Summary of Core Services Taxonomy 6 Service Definitions*.

## **Budgeting and Funding Block Diagram**



**Letter of Notification: Mental Health Services****Exhibit A-1**

PAGE

**MENTAL HEALTH SERVICES SUMMARY: ONGOING SERVICES**CHECK ONE: ☐ Letter of Notification☐ Letter of Notification Revision

(Date: \_\_\_\_\_)

FY \_\_\_\_\_

CSB \_\_\_\_\_

**REVENUES FOR SERVICES DETAIL:**

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

MH General Funds  
 Regional Deaf Services  
 NGRI – Discharge Assistance  
 MH/SA Jail Services  
 One Time General Funds  
 Psychiatric Staff

TOTAL Expenses \_\_\_\_\_

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

All Other Fees  
 Medicaid SPO  
 Medicaid Clinic  
 Medicaid Other  
 Medicaid Medallion II

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

PATH  
 PATH Housing  
 SWVMH Board  
 FBG/SED C and A  
 FBG/SMI  
 Other Federal  
 Restricted Federal  
 Federal Retained Earnings  
 One Time Federal Funds  
 FBG POMS

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

Local Gov't  
 Contributions  
 In-Kind  
 Other Local

\_\_\_\_\_  
 \_\_\_\_\_

St. Retained Earnings  
 Other

**TOTAL REVENUES FOR SERVICES:**

STATE	LOCAL	FEE COLLECTIONS	FEDERAL	OTHER	TOTAL
_____	_____	_____	_____	_____	_____

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

MH GF  
 Children's MH Svcs.  
 Admin/POMS  
 Total MH GF

**Letter of Notification: Mental Retardation Services****Exhibit A-2**

PAGE

**MENTAL RETARDATION SERVICES SUMMARY: ONGOING SERVICES**

CHECK ONE: ☐ Letter of Notification  
☐ Letter of Notification Revision (Date: \_\_\_\_\_)

FY \_\_\_\_\_

CSB \_\_\_\_\_

**REVENUES FOR SERVICES DETAIL:**

- 1) \_\_\_\_\_ MH General Funds  
 2) \_\_\_\_\_ Family Support  
 \_\_\_\_\_ One Time General Funds  
 \_\_\_\_\_ Early Intervention  
 \_\_\_\_\_ Children's Family Support

TOTAL Expenses \_\_\_\_\_

All Other Fees \_\_\_\_\_

Medicaid SPO \_\_\_\_\_

Medicaid Clinic \_\_\_\_\_

Medicaid ICF \_\_\_\_\_

Medicaid Other \_\_\_\_\_

Medicaid Medallion II \_\_\_\_\_

Child Day Care \_\_\_\_\_

Federal Early Intervention \_\_\_\_\_

Other Federal \_\_\_\_\_

Restricted Federal \_\_\_\_\_

One Time Federal Funds \_\_\_\_\_

Local Gov't \_\_\_\_\_  
 Contributions \_\_\_\_\_

In-Kind \_\_\_\_\_

Other Local \_\_\_\_\_

St. Retained Earnings \_\_\_\_\_

Other \_\_\_\_\_

**TOTAL REVENUES FOR SERVICES:**

STATE	LOCAL	FEE COLLECTIONS	FEDERAL	OTHER	TOTAL
_____	_____	_____	_____	_____	_____

- 1) \_\_\_\_\_ MR GF  
 \_\_\_\_\_ Admin/POMS  
 \_\_\_\_\_ Total MR GF

- 2) \_\_\_\_\_ Maint. Family Support  
 \_\_\_\_\_ New Family Support  
 \_\_\_\_\_ Family Support

## Letter of Notification: Substance Abuse Services

### Exhibit A-3

PAGE

## SUBSTANCE ABUSE SERVICES SUMMARY: ONGOING SERVICES

CHECK ONE: ☐ Letter of Notification  
☐ Letter of Notification Revision (Date: \_\_\_\_\_) FY \_\_\_\_\_

CSB

## REVENUES FOR SERVICES DETAIL:

- 1) \_\_\_\_\_ SA General Funds  
 \_\_\_\_\_ Region V Residential  
 \_\_\_\_\_ MH/SA Jail Services  
 \_\_\_\_\_ One Time General Funds

TOTAL Expenses \_\_\_\_\_

Women's Set Aside \_\_\_\_\_

All Other Fees \_\_\_\_\_

Medicaid SPO \_\_\_\_\_

Medicaid Clinic \_\_\_\_\_

Medicaid Other \_\_\_\_\_

Medicaid Medallion II \_\_\_\_\_

2) \_\_\_\_\_

SA Alcohol FBG

3) \_\_\_\_\_

SA Drug FBG

SA Primary Prevention FBG

SA SARPOS FBG

SA HIV/AIDS FBG

Other Federal

Restricted Federal

Federal Retained Earnings

One Time Federal Funds

Methadone HIV Counselors

RBHA Res. A/D

Prev-Strengthening Families Init.

Prev-Fetal Alcohol Syndrome

4) \_\_\_\_\_

Local Gov't

Contributions \_\_\_\_\_

In-Kind \_\_\_\_\_

Other Local \_\_\_\_\_

St. Retained Earnings

Other

## TOTAL REVENUES FOR SERVICES:

STATE	LOCAL	FEE COLLECTIONS	FEDERAL	OTHER	TOTAL
_____	_____	_____	_____	_____	_____

SA GF  
 Comm. Based Tmt.  
 Admin/POMS  
 Total SA GF

2) \_\_\_\_\_

SA Alc. FBG  
 Comm. Based Tmt.  
 Total SA Alc. FBG

3) \_\_\_\_\_

SA Drug FBG  
 Comm. Based Tmt.  
 Total SA Drug FBG

4) Tobacco Prevention Funding

## Letter of Notification: Purchase of Individualized Services

### Exhibit A-4

**SUBSTANCE ABUSE SERVICES SUMMARY: ONGOING SERVICES**

CHECK ONE: ☐ Letter of Notification  
☐ Letter of Notification Revision (Date: \_\_\_\_\_)

CSB \_\_\_\_\_ FY \_\_\_\_\_

Sources of Funds for Allocation		Allocations	
		State	Federal
<b>Mental Health</b>			
1. Persons with SMI (Discharge Asst. Project)	Form: 62		
2. Children and Adolescents with SED	Form: 76		
<b>Total Mental Health Allocations</b>			

		Allocations	
		State	Waiver Fees
<b>Mental Retardation</b>			
1. Waiver	Form: 82		
2. Non-Waiver	Form: 85		
<b>Total Mental Retardation Allocations</b>			

Substance Abuse		Allocations	
		State	Federal
<b>Total Substance Abuse Allocations</b>			

Note: The Sources of Funds equate to the titles on the CARS drop down menus.

## Letter of Notification: Special Projects

### Exhibit A-5

**SUBSTANCE ABUSE SERVICES SUMMARY: ONGOING SERVICES**

CHECK ONE: ☐ Letter of Notification  
☐ Letter of Notification Revision (Date: \_\_\_\_\_)

CSB \_\_\_\_\_ FY \_\_\_\_\_

Sources of Funds for Allocation		Allocations	
		State	Federal
Mental Health			
3. Assisted Living Facility (ALF) Pilot	Form: 68		
4. PACT	Form: 69		
5. Residential Services for SMI	Form: 71		
Total Mental Health Allocations			

Substance Abuse		Allocations	
		State	Federal
1. AS State Facility Diversion	Form: 95		
2. Community Based Treatment Women	Form: 98		
5. SA Jail Services	Form: 100		
Total Substance Abuse Allocations			

Note: The Sources of Funds equate to the titles on the CARS drop down menus.

# DMHMRSAS Request for Warrant

## Exhibit B (Page 1)

DATE \_\_\_\_\_

SERVICES BOARD: \_\_\_\_\_

WARRANT PAYABLE TO: \_\_\_\_\_

MAIL WARRANT TO: \_\_\_\_\_

FIN#: \_\_\_\_\_

This approval of a State Grant of Funds is authorized by Chapter 10, Title 37.1-194 through 37.1-200 of the Statutes of Virginia and funded by item 329 of the Appropriations Act. Please be advised that funding for the program indicated has been approved and submitted to the State Comptroller for payment.

**PROGRAM****DOLLARS**Administration Ongoing Services (1)\*POMS Funding (2)\***Mental Health Services****Ongoing Services**MH General Funds (3)\*MH Psychiatric Staff Funds (29)\*Regional Deaf Services (4)\*MH NGRI Discharge Assistance Funds (5)\*MH Residential Services (6)\***Purchase of Individualized Services**Persons w/SMI (Discharge Asst. Project) (28)\*Children and Adolescents with SED (7)\***Special Projects**Residential Care for SMI (8)\*Residential Services for MI (9)\*Children's Mental Health Services (10)\***Mental Retardation Services****Ongoing Services**General Funds (11)\*Waiting List (12)\*Family Support (13)\*Children's Family Support (14)\***Purchase of Individualized Services**Waiver (15)\***Substance Abuse Services****Ongoing Services**SA General Funds (16)\*

\*Numbers in parenthesis refer to the corresponding numbers on Exhibit B pages 4 and 5.



# DMHMRSAS Request for Warrant

## Exhibit B (Page 2)

Special Projects

Alcohol of Drug Facility Diversion (17)\*

Community-Based Treatment Services (18)\*

Mental Health Services – FEDERALMental Health Services CFDA # 93.958 Ongoing Services

FBG / SED C&amp;A (19)\*

FBG/PSYCHIATRIC STAFF (30)\*

FBG/POMS

Substance Abuse Services – FEDERAL CFDA # 93.959Ongoing Services

Alcohol

FBG (20)

Alcohol-Women's Set Aside

FBG (21)

Drug

FBG (22)

Drug-Women's Set Aside

FBG (23)

SA Primary

Prevention FBG (24)\*

SA Prevention One Time

Prevention FBG (31)\*

SA

SARPOS FBG (25)\*

Special Projects

SA

Alc. FBG

Community-Based Treatment Services (26)\*

Drug FBG

Community-Based Treatment Services (27)\*

AMOUNT OF STATE FUNDS REQUESTED FOR THIS WARRANT:

\*Numbers in parenthesis refer to the corresponding numbers on Exhibit B pages 4 and 5.



## DMHMRSAS Request for Warrant

### Exhibit B (Page 4)

(1)	Regular Funding FY01 COLA Adjustment	<hr/>	<hr/>
(2)	Regular Funding	<hr/>	<hr/>
(3)	Regular Funding FY01 COLA Adjustment FY00 MH SPO Due Dept. 8/29/00 pp# 16	<hr/>	<hr/>
(4)	Regular Funding	<hr/>	<hr/>
(5)	Regular Funding – NGRI-Ltr. 1/22/XX pp# 18	<hr/>	<hr/>
(6)	Regular Funding	<hr/>	<hr/>
(7)	Children & Adol. W/SED Encumbered Bal. Ltr. 4/27/XX Funding Reduction Ltrs. (4) of 5/3/XX	<hr/>	<hr/>
(8)	Regular Funding	<hr/>	<hr/>
(9)	MH Comm. Res. Svcs. for Persons w/MI Less: Pmts. 1-17 @8,189 Less: FY00 6/30/XX Balance Due Dept. Remaining Funds Add'l Funding Approved 3/21/XX	<hr/>	<hr/>
(10)	Regular Funding	<hr/>	<hr/>
(11)	Regular Funding FY01 COLA Adjustment Less Pmts. 1/15 Balance of Funds FY00 MR SPO Due Date 8/29/XX Remaining FundsFY20XX OBRA	<hr/>	<hr/>
(12)	Regular Funding	<hr/>	<hr/>
(13)	Regular Funding	<hr/>	<hr/>
(14)	Regular Funding	<hr/>	<hr/>
(15)	MR One-Time GF Ltr. 7/7/20XX pp# 4	<hr/>	<hr/>

**Note:** Cross reference parenthetical numbers in column 1 to Exhibit B pages 1 and 2.

## DMHMRSAS Request for Warrant

### Exhibit B (Page 5)

(16)	Regular Funding FY01 COLA Adjustment		
(17)	Regular Funding		
(18)	Comm. Based Treatment Less: Pmts. 1-17 @ 1,830 Less: FY00 6/30/XX Balance Due Dept. Remaining Funds		
(19)	Regular Funding		
(20)	Regular Funding		
(21)	Regular Funding		
(22)	Regular Funding Add: One Time Funding Ltr 4/25/XX for Drug Court Initiative		
(23)	Regular Funding		
(24)	Regular Funding		
(25)	Sarpos Original Funding Less: Pmts. 1-11 @1,678 Less FY20XX Retained Earnings Balance of Funding		
(26)	Regular Funding		
(27)	Regular Funding		
(28)	Discharge Asst. Project March Billing pp# 22		
(29)	Psychiatric Staff State Funding		
(30)	Psychiatric Staff Federal Funding		
(31)	SAPT Prevention One Time Funding Ltr. 2/15/XX pp# 17		
(32)	MH FBG POMS Funding Ltr. 5/11/XX		

**Note:** Cross reference parenthetical numbers in column 1 to Exhibit B pages 1 and 2.

## **Chapter 3: Responsibilities for Financial Management**

### **Table of Contents**

Introduction, 38

#### **Management Responsibilities**

- Board of Directors, 38
- Executive Director, 38
- Fiscal Director's Role, 38

Continuing Professional Education, 39

Standard Operating Procedures, 40

Risk Management, 41

Local Government (CSB) Insurance  
Program, 42-43

## **Responsibilities for Financial Management**

**Introduction** This chapter discusses the roles and responsibilities of the CSB Board of Directors, Executive Director, and Fiscal Director. It is everyone's role to be fiscally responsible. Efforts should be made to assess the necessity and benefit of any spending. Costs should be reasonable, waste should be minimized, and revenue should be maximized.

### **Management Responsibilities**

**Board of Directors** The Board of Directors has a fiduciary responsibility over CSB activities. Board members need timely and accurate information for sound decision making.

**Executive Director** The Executive Director, as agent of the Board of Directors, has ultimate administrative responsibility for all CSB activities. The Executive Director supervises the Fiscal Director who operationally supervises fiscal activities. The Executive Director should work closely with the Fiscal Director and staff to gain an understanding of fiscal matters and be well-versed when communicating with the Board, local government and others.

**Fiscal Director** It is the Fiscal Director's responsibility to design fiscal policy and ensure compliance with it. The Fiscal Director should also ensure that the systems in place provide for the proper recording and classifying of all accounting activities and that accounting activities are performed in a timely manner.

The Fiscal Director typically has responsibility for managing the following functions:

- Accounts payable/receivable
- Payroll
- Fixed asset management
- Procurement
- Budget
- Third party reimbursement

The Fiscal Director typically has the following fiscal duties:

- Financial policies and procedures
- Internal controls design and maintenance

- Accurate and timely reporting for management
- Financial statements in accordance with generally accepted accounting principles
- Compliance with all government regulations
- Risk Management
- Assist Board and Executive Director with fiscal decisions
- Appropriate cost accounting methodology
- Proper audit of all funds
- Training and development of fiscal staff
- Records retention

### **Continuing Professional Education (CPE)**

**Purpose** One way to enhance the knowledge, skills, and abilities of the Fiscal Director and key fiscal staff is to encourage continuing professional education (CPE). Continuing professional education should not be limited only to those who are maintaining professional designations such as CPA (Certified Public Accountant), CMA (Certified Management Accountant) or CFE (Certified Fraud Examiner), etc. CSB management should encourage continuing professional education to ensure that fiscal staff remains abreast of current developments in their profession. Sources are listed below through which continuing professional education can be obtained.

- American Institute of CPAs (AICPA)  
1211 Avenues of the Americas  
New York, NY 10036  
(800) 862-4272
- Virginia Society of CPAs (VSCPA)  
P.O. Box 4620  
Glen Allen, VA 23058-4620  
(804) 270-5344
- Association of Government Accountants (AGA)  
2208 Mt. Vernon  
Alexandria, VA 22301  
(800) AGA-7211
- Government Finance Officers' Association (GFOA)  
180 N. Michigan Avenue, Suite 800

Chicago, IL 60601  
(312) 977-9700

- Virginia Government Finance Officers Association  
401 McIntire Road  
Charlottesville, VA 22902  
(804) 296-5847
- Local colleges and universities  
(Contact colleges and universities directly for information)

## **Standard Operating Procedures**

### **Fiscal Policies and Procedures**

Fiscal operations are defined by procedures and policies created by the Fiscal Director. For example, basic procedures should be documented for the following:

- Accounts receivable/reimbursement
- Accounts payable
- Budgeting
- Payroll
- Petty cash and cash receipts
- Purchasing/receiving
- Fixed asset management
- General ledger maintenance
- Reconciliations
- Credit cards
- MIS Security

### **Reasons for Documentation**

- Documented procedures provide support for those employees who backup a function.
- Documented procedures provide concrete guidance and prevent inappropriate interpretation by employees.
- Documented procedures reduce internal conflicts regarding how to accomplish a task.
- Documented policy and procedures can be presented to the Board for discussion and approval.
- Documented policies and procedures provide a tool for new



employees and promote an environment of independent learning.

- Documented policies and procedures provide management with support when addressing non-compliant performance.

**Format** The actual format used for writing standard operating procedures should be decided by the Fiscal Director and Executive Director.

**Example** The following is a simple example of a standard operating procedure to process invoices. The format used here is "Step- Action". This is just one of the many different formats that can be used.

Step	Action	Done by
1	Date stamp all incoming invoices.	Receptionist
2	Sort all incoming invoices in a tickler file by due date.	AP Asst.
3	Match all invoices with purchase order and receiving document.	AP Tech.
4	Ensure that all invoices are approved by the Office Director and by the Fiscal Director or other designated person.	AP Tech.
5	Prepare checks and check run.	AP Tech.
6	Have checks signed and verified.	AP Tech.
7	Distribute checks.	Secretary

## **Risk Management**

**Introduction** The Fiscal Director usually has responsibility or at a minimum some involvement in the CSB's risk management practices. The section is included to provide an awareness of the importance of effective and cost beneficial risk management.

**Definition** Risk management is defined as the reasonable precautions that an organization takes to protect itself from losses and to recover losses when they occur. Risk management is similar to internal control in that it endeavors to safeguard assets.

**Coverage** Coverage may include the following:

- Appropriate bonding (surety)
- Officers liability insurance

- Professional staff liability insurance
- Comprehensive loss insurance
- Fire and theft insurance
- Automobile insurance
- Medical malpractice
- General liability
- Errors and omissions

**VARISK 2** CSBs should refer to the *CSB Procurement Procedures Manual* issued by the Department for additional guidance on risk management procurement. This manual was revised January 1999 and is available on the DMHMRSAS' website at [www.dmhmrzas.state.va.us/csb](http://www.dmhmrzas.state.va.us/csb). Contact DMHMRSAS' Administrative Services Division at (804) 786-3915 for information regarding risk management procurement. Additional information can also be found at the Commonwealth of Virginia Department of Treasury's website at [www.trs.state.va.us](http://www.trs.state.va.us).

**Local Government Insurance Programs** There are currently four local government insurance programs available to CSBs. A CSB is not required to engage in competitive bidding in order to obtain quotations from these sources because they are either state government or non-profit quasi-governments organizations. The sources are listed on the next page with their offerings.

## Local Government Insurance Programs

Organization	Offerings/Insurance Program	Phone #	Approx. Response Time for Quote
<b>VARisk</b> - Dept of the Treasury Contact: Joyce Palmer <a href="mailto:joyce.palmer@trs.state.va.us">joyce.palmer@trs.state.va.us</a>	* Public Officials General Liability * Medical Malpractice * Auto Physical Damage Liability	804/786-3152 Fax: 804/371-1400	1 week
<b>VML</b> (Virginia Municipal League) Contact: Cathie Moreland-Hasty <a href="mailto:chasty@vml.org">chasty@vml.org</a>	* Workers' Comp * Public Officials Liability * Property and Casualty * Auto Physical Damage/Liability * Others	888/295-4865 Fax: 804/643-0351	30 days
<b>VACo</b> – Virginia Association of Counties Contact: Chris Carey <a href="mailto:chris@vacoins.org">chris@vacoins.org</a>	* Workers' Comp * Public Officials Liability * Property and Casualty * Auto Physical Damage/Liability * Health Ins. and Others	888/822-6772 Fax: 540/345-5330	1-2 weeks
<b>The Local Choice</b> (Dpt. of HRM) Contact: Walt Norman <a href="mailto:wnorman@dhrm.state.va.us">wnorman@dhrm.state.va.us</a>	* Health Insurance	804/786-6460 Fax: 804/371-0231	10 days

Summary details of these programs were issued to CSBs in a memo from Dr. Joy Yeh on April 3 2002. CSBs should consult this memo for details or contact the Office of Financial Reporting and Compliance.

**Chapter 4:  
Internal Control, Fraud Reporting  
And  
Financial Review Process**

**Table of Contents**

Introduction, 45
What is Internal Control, 45
Nine Standards of Internal Control, 45
Basic Tools of Internal Control, 47
Fraud Reporting, 47
Financial Review Process, 51
Desk Reviews, 52

## **Internal Control, Fraud Reporting, and Financial Review Process**

**Introduction** This chapter introduces internal control concepts and principles, fraud reporting information, and the financial review process utilized by OFRC. The review of fiscal year-end CSBs' and contract agencies' audit reports (i.e., desk audit reviews) is also discussed.

### **What is Internal Control?**

**Definition** Internal control consists of the plan of organization and the methods and measures to:

- Safeguard assets
- Check accuracy and reliability of accounting data
- Promote operational efficiency
- Encourage adherence to prescribed managerial policies

The Executive Director has ultimate responsibility for the system of internal control.

**Importance** A system of strong internal controls can minimize a CSB's exposure to:

- Fraud, abuse, and waste
- Budget deficits
- Non-compliance with Board policies and procedures
- Inaccurate financial reporting
- Public scrutiny due to financial improprieties

### **Nine Standards of Internal Control**

**Standards** The nine standards of internal control are listed on the next page. These standards should be reviewed when establishing and maintaining a system of internal controls.

No.	Standard	Common Control Techniques	Illustration
1	<b>DOCUMENTATION</b> (Internal Controls should be documented).	<input type="checkbox"/> Operating Plans <input type="checkbox"/> Organizational Charts <input type="checkbox"/> Job Descriptions <input type="checkbox"/> Policies and Procedures	Written payroll preparation procedures
2	<b>RECORDING</b> (Transactions should be recorded as executed and should be properly classified).	<input type="checkbox"/> Progress Reports <input type="checkbox"/> Use of Checklists and Logs <input type="checkbox"/> Use of Pre-numbered Receipts	Weekly cash balance reconciliation
3	<b>AUTHORIZATION</b> (Transactions should be executed as authorized).	<input type="checkbox"/> Clear Chain of Command <input type="checkbox"/> Periodic Inspection <input type="checkbox"/> Approval of all Changes	An authorized signature required on all purchase orders.
4	<b>STRUCTURE</b> (Key duties should be separated so that no one person controls all phases of an activity).	<input type="checkbox"/> Separate the following key duties: approving, processing, recording, reviewing, and custody.	Cashier should not post payments to reimbursement accounts.
5	<b>SUPERVISION</b> (Supervisors should ensure that procedures are followed).	<input type="checkbox"/> Performance Evaluations <input type="checkbox"/> Scheduled and unscheduled review of work	Supervisor should provide on-the-job training.
6	<b>SECURITY</b> (Access to assets is limited to authorized personnel).	<input type="checkbox"/> Physical Control and Pre-numbering of Critical Forms (e.g., blank checks, receipts) <input type="checkbox"/> Safes, Locking Doors, Drawers, Filing Cabinets, Alarms	Blank checks and/or check books are locked up and controlled.
7	<b>COMPETENT PERSONNEL</b> (Key personnel should be competent and have high standards of integrity).	<input type="checkbox"/> Proper Hiring and Training (formal and on-the-job)	Hire competent and experienced individuals with high standards of integrity.
8	<b>REASONABLE ASSURANCE</b> (Internal controls provide reasonable, but not absolute assurance that control objectives will be accomplished).	<input type="checkbox"/> Costs of implementing controls should not exceed the benefits derived.	Benefits are significant reductions in the risks of failing to achieve the stated control objectives.
9	<b>RECORDS</b> (Records should be secure from unauthorized use).	<input type="checkbox"/> Secure computer data through passwords. <input type="checkbox"/> Secure financial and administrative data in locked cabinets or rooms.	System and program passwords required for the payroll, general ledger, and reimbursement applications.

## **Basic Tools of Internal Control**

<b>Introduction</b>	<p>There are three basic tools to use when documenting and analyzing internal control strengths and weaknesses. Each is described below.</p> <p><b><u>Flowcharting</u></b> - Flowcharting is a graphic presentation of the major processes involved in an operation (e.g., cash receipts).</p> <p><b><u>Narratives</u></b> - Narratives are written descriptions of the major processes involved in an operation.</p> <p><b><u>Internal Control Questionnaire</u></b> – An Internal Control Questionnaire (ICQ) is a document used to assess the adequacy of controls relating to operations. The questionnaire is structured to make assessments of the nine standards of internal control. A copy of an ICQ is available upon request.</p>
<b>Other Tools</b>	<p><b><u>Control Matrices</u></b> – Two-dimensional matrices that illustrate controls</p> <p><b><u>Data Flow Diagrams</u></b> – Adaptation of flow charts that present only four symbols: entities, processes, data type, and data flow.</p>
<b>Which Tool to Use?</b>	<p>The choice of which tool to use is dependent upon the preference of the person documenting and analyzing the operations.</p>

## **Fraud Reporting**

<b>Introduction</b>	<p>Fraud is an intentional wrongful act with the purpose of deceiving or causing harm to another party. The <i>Code of Virginia</i> requires the reporting of fraudulent transactions that have occurred within a CSB. (Refer to the <i>Code of Virginia, Title 30, General Assembly, Chapter 14, Auditor of Public Accounts, Section 30-138</i> included on Page 49). The full text of this code section can also be accessed on line at <b><u><a href="http://www.state.va.us">www.state.va.us</a></u></b> by clicking on the <i>Code of Virginia</i>.</p>
<b>Reporting Procedure</b>	<p>Upon discovery of circumstances <b>suggesting a reasonable possibility</b> that a fraudulent transaction has occurred, the Executive Director shall report such information immediately to the <b>Virginia State Police</b>. (See VSP office information below. The failure to report is a Class Three misdemeanor.</p>

Virginia State Police  
Bureau of Criminal Investigations (BCI)  
7700 Midlothian Turnpike  
Richmond, VA 23235  
Tel (804) 674-2000  
Fax (804) 674-2132

<b>APA Clarification</b>	January 2003 update: Per correspondence with the Auditor of Public Accounts (APA), ... <i>"it is not necessary for the CSBs to report fraudulent activity to our office (APA)"</i> .
<b>Recommended Procedures</b>	<p>The Executive Director should ensure that the following procedures are performed:</p> <ol style="list-style-type: none"><li>1. Secure records for State Police examination.</li><li>2. Call the Virginia State Police (VSP), Bureau of Criminal Investigations (BCI). An investigator will be dispatched as soon as possible. Fax a copy of the letter notifying the VSP <b><u>IMMEDIATELY</u></b> of the fraud. (See sample letter on Page 48). The fax number is shown above.</li><li>3. After discussion with the State Police, consider placing employee(s) on administrative leave. Be sure to remove employee(s)' access to CSB facilities (keys, access cards, passwords, etc.)</li><li>4. Notify DMHMRSAS Internal Audit Director (804-786-5837).</li><li>5. Mail letter (#2 above) to VSP (cc: DMHMRSAS Commissioner)</li></ol>
<b>Other Recommended Procedures</b>	<ol style="list-style-type: none"><li>1. In conjunction with the State Police investigator, determine what procedures and controls can be established to prevent the fraud from occurring again.</li><li>2. Review the planned new procedures and controls with DMHMRSAS Office of Internal Audit and the CSB's CPA firm.</li></ol>
<b>Notes</b>	It is not necessary for the CSB to notify the local police department. If federal funds are involved, the Virginia State Police will notify the FBI.
<b>Sample Fraud Reporting Letter</b>	See the next page for a sample fraud reporting letter. Please check the websites of the various agencies (Virginia State Police, DMHMRSAS) to ensure letters are addressed to the current agency heads.



Fax a copy of the letter below **IMMEDIATELY** to the Virginia State Police, Bureau of Crime Investigations (BCI): Fax 804-674-2132 Phone 804-674-2000.

### **Sample Fraud Reporting Letter**

July xx, 2002

Colonel W. Gerald Massengill, Superintendent  
Virginia State Police  
P.O. Box 27472  
Richmond, VA 23261-7472

Dear Colonel Massengill:

In accordance with §30-138 of the *Code of Virginia*, this letter is to notify your office of apparent fraudulent activity at *(specify facility, exact address, and city)*. This facility is used by the Virginia Community Services Board *(specify name of CSB)* to conduct CSB business.

Our initial internal investigation has revealed that approximately \$ *(specify amount)* was misappropriated from the CSB over a period of time *(specify period, if known)*. *(Briefly summarize what apparent fraudulent actions have occurred)*. We have placed the suspected employee(s) on administrative leave pending the outcome of your investigation. *(State whether or not federal funds were involved. If so, the State Police will notify the FBI)*.

If you have any questions or need additional information on this case, please contact me or my Director of Administration *(specify name and phone number)*.

A copy of this letter has been sent to the Commissioner, Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services, Lt. Col. Stilwell of the Virginia State Police, and DMHMRSAS Internal Audit Director.

Sincerely

CSB Executive Director

pc: James S. Reinhard, M.D., Commissioner DMHMRSAS  
Lt. Col. Darrel E. Stilwell, Director, Bureau of Criminal Investigations, Va. State Police  
Anthony Gintout, DMHMRSAS, Internal Audit Director

**Code of Virginia, Title 30, General Assembly, Chapter 14, Auditor of Public Accounts,  
Section 30-138**

§ 30-138. (Effective October 1, 2001) State agencies, courts, and local constitutional officers to report certain fraudulent transactions; penalty.

A. Upon the discovery of circumstances suggesting a reasonable possibility that a fraudulent transaction has occurred involving funds or property under the control of any state department, court, officer, board, commission, institution or other agency of the Commonwealth, including local constitutional officers and appointed officials exercising the powers of elected constitutional officers, as to which one or more officers or employees of state or local government may be party thereto, the state agency head, court clerk or local official in charge of such entity shall promptly report such information to the Auditor of Public Accounts ("Auditor") and the Superintendent of State Police ("Superintendent").

B. The Auditor or the Superintendent shall review the information reported pursuant to subsection A and individually determine the most appropriate method to investigate the information. In the event that the Auditor or the Superintendent determines to conduct an investigation, he shall notify the other of the commencement of the investigation as soon as practicable, unless the information involves the Auditor or the Superintendent.

C. No state department, court, officer, board, commission, institution or other agency of the Commonwealth, including local constitutional officers and appointed officials exercising the powers of elected constitutional officers, shall employ or contract with any person, firm, corporation, or other legal entity to conduct an investigation or audit of information reported pursuant to subsection A without obtaining the prior written approval from the Auditor and the Superintendent. Pending acknowledgement of the report and receipt of the written approval from the Auditor and the Superintendent, the state department, court, officer, board, commission, institution, or other agency of the Commonwealth, including local constitutional officers and appointed officials exercising the powers of elected constitutional officers, may use their employees to audit the circumstances reported in subsection A to prevent the loss of assets.

D. All state departments, courts, officers, boards, commissions, institutions or other agencies of the Commonwealth, including local constitutional officers and appointed officials exercising the powers of elected constitutional officers and their employees, shall cooperate to the fullest extent in any investigation or audit which may occur at the direction of the Auditor or the Superintendent or both as a result of information reported pursuant to subsection A.

E. The willful failure to make the report as required by this section shall constitute a Class 3 misdemeanor.

F. Nothing herein shall affect the requirements of § 52-8.2.

**(1984, c. 421, § 2.1-155.3; 1997, c. 825; 2001, c. 844.)**

## **Financial Review Process**

<b>Introduction</b>	This section discusses the financial review process conducted by the Office of Financial Reporting and Compliance (OFRC).
<b>Purpose of the Financial Review</b>	This process intends to offer constructive recommendations regarding CSB financial management issues. The review is not an audit and is conducted in a consultative fashion.
<b>Authority</b>	The authority for the financial review process is found in State Board Policies: <ol style="list-style-type: none"><li>1. Number 6003 (FIN) 87-5</li><li>2. Number 4021 (CSB) 86-18</li></ol>
<b>Schedule</b>	A CSB should expect a review approximately once every two years. Reviews may also be conducted at the request of the Board, Executive Director, DMHMRSAS or other parties depending upon need.
<b>Fieldwork Procedures</b>	<p>The procedures below are performed during the review process:</p> <ol style="list-style-type: none"><li>1. An entrance conference is held with the Executive Director and Fiscal Director.</li><li>2. An analysis of CSB financial operations is conducted in the areas of:<ul style="list-style-type: none"><li>▪ Financial policies and procedures</li><li>▪ Accounting system and functions</li><li>▪ External audit and internal controls</li><li>▪ Contractual programs</li><li>▪ Organizational structure</li><li>▪ Timeliness of reporting</li><li>▪ Cost accounting and budgeting</li><li>▪ Federal grants management and cash management</li></ul></li><li>3. Limited transaction testing.</li><li>4. Documentation of systems of internal control.</li><li>5. An exit conference is held with the Executive Director and Fiscal Director.</li></ol>
<b>Written Report</b>	<p>The written report process is as follows:</p> <ol style="list-style-type: none"><li>1. The review team prepares the draft report. The Director of OFRC reviews the draft report and the work papers.</li><li>2. The draft report is issued to the Executive Director of the CSB with a two-week time frame for review and response to the recommendations.</li></ol>

3. The final report including the Executive Director's responses to the recommendations is issued to the CSB Chairperson and Commissioner of DMHMRSAS.

**Support** The OFRC is available to assist CSBs with the implementation of any recommendations.

### **Desk Reviews of Audit Reports**

**Purpose** The desk review is a review of the CSBs' and contract agencies' fiscal year-end audit reports and financial statements. Emphasis is placed on applicable reporting standards and requirements, financial statement presentation, and note disclosures as well as the overall auditor's report. This review is not an audit. It closely resembles a quality assurance (or peer review) of the independent audit firm.

**Desk Review Process** Desk reviews are conducted of all CSB and contract agency audits. Audit reports should be submitted to DMHMRSAS by November 30, as required. A review program checklist is used that has the following sections. Each section has applicable review steps.

- Submission of Audit Reports
- Management Letter
- Independent Auditor's Report
- Financial Statement Presentation
- General Information (Balance Sheet, Statement of Operations, Statement of Cash Flows, Statement of Changes in Fund Balances)
- Single Audit Reports (Report on Compliance and Internal Control, Report on Compliance with Requirements, Schedule of Findings and Questioned Costs, Schedule of Expenditures of Federal Awards)
- DMHMRSAS Disclosures
- Notes to Financial Statements

**Written Report** The Commissioner of DMHMRSAS signs the written report. The final report is issued to the respective CSB Executive Director with copies to the independent auditor and the Office of Community Contracting. A written response (Plan of Correction) is generally required to be submitted within 90 days after the report is issued.

## **Chapter 5: Financial Reporting**

### **Table of Contents**

Introduction, 54

Enterprise Fund Reporting Model, 54

Uniform Cost Reporting Model, 59

## **Financial Reporting Models**

**Introduction** Community services boards exist in an environment of numerous funding streams. Because of the need to account for these many streams of funding, fund accounting is necessary. This chapter introduces the Enterprise Fund model of financial reporting as outlined in Governmental Accounting Standards Board (GASB) Statement 34 and the Uniform Cost Reporting Model.

### **Enterprise Fund Reporting Model**

**Background** Community services boards provide behavioral health care services in the areas of mental health, mental retardation and substance abuse services. According to GASB 34, community services boards are special purpose governmental entities engaged in business type activities. Although subsidized by state, federal and local funds, community services boards are required to maximize reimbursement for services provided. As a result of this requirement, a rate is set for each service provided and an attempt is made to collect the resulting charge for services rendered.

**Financial Reporting Requirements** The Enterprise Fund model of financial reporting may be used to report any activity for which a fee is charged to external users for goods or services. Community services boards charge fees for services rendered and are, thus, considered to be an enterprise fund for financial reporting purposes.

The Enterprise Fund model of reporting requires the following financial statements and additional disclosure information:

1. Statement of Net Assets (Balance Sheet)
2. Statement of Revenues, Expenses, and Changes in Net Assets of Fund Equity
3. Statement of Cash Flows (Direct Method)
4. Management and Discussion Analysis
5. Notes to Financial Statements
6. Required Supplemental Information

The table on Page 53 compares the Enterprise Fund Model to the Governmental Health Care Model. Sample financial statements based on the Enterprise Fund model of reporting begin on Page 52.

**Effective** All operating community services boards and behavioral health authorities

**Implementation Date** are required to implement the Enterprise Fund model of financial reporting effective with the preparation of their June 30, 2003 financial statements.

### **Comparison: Enterprise Fund Model to Govt. Health Care Model**

<b>Issue</b>	<b>Enterprise Fund Model</b>	<b>Health Care Model</b>
Accrual Basis	Yes	Yes
Recognize Depreciation Expense	Yes	Yes
Health Care Revenue Principles Apply	Yes	Yes
Recognition of Restricted and Unrestricted Assets	Yes	Yes
Operating and Non-operating Revenue Reported Separately	Yes	Yes
Operating and Non-operating Expense Reported Separately	Yes	No
Operating Income (Loss) Reported Separately from Non-operating Income (Loss)	Yes	No
State, Federal, Local, and Other Subsidies are Considered Operating Revenue	No	Yes

**Authoritative Literature** Governmental Accounting Standards Board (GASB) Statement 34  
Published by the Governmental Accounting Standards Board of the Financial Accounting Foundation  
401 Merritt 7  
Post Office Box 5116  
Norwalk, CN 06856-5116  
Phone: 1-800-748-0659

Guide to Implementation of GASB 34 on Basic Financial Statements - and Management Discussion and Analysis - for State and Local Governments - Questions and Answers  
Published by the Governmental Accounting Standards Board of the Financial Accounting Foundation  
401 Merritt 7  
Post Office Box 5116  
Norwalk, CN 06856-5116  
Phone: 1-800-748-0659

**Sample CSB**  
**Statement of Net Assets**  
**June 30, 20xx**

Current Assets:

Cash and equivalents	\$4,571,410
Accounts receivable (net)	1,170,463
Grants receivable	52,669
Consumer loans receivable	12,490
Prepaid items	-
Loans receivable, current portion	7,691
Total current assets	<u>5,814,723</u>

Restricted Current Assets:

Cash and cash equivalents – client funds	66,204
--	--------

Property and Equipment:

Property and equipment (net)	3,630,601
------------------------------	-----------

Other Assets:

Loans receivable	36,963
Total Assets	<u><u>\$9,548,491</u></u>

Current Liabilities:

Accounts payable and accrued expenses	\$352,493
Compensated absences	316,391
Unexpended grant funds	215,966
Long-term debt, current portion	47,171
Total current liabilities	<u>932,021</u>

Current Liabilities Payable from Restricted Assets:

Client Funds	66,204
--------------	--------

Long-term Liabilities:

Long-term debt	1,522,469
Total Liabilities	<u>2,520,694</u>

Net Assets:

Invested in capital assets, net of related debt <sup>1</sup>	2,060,961
Restricted <sup>2</sup>	-
Unrestricted	4,966,836
Total net assets	<u>7,027,797</u>
Total liabilities and net assets	<u><u>\$9,548,491</u></u>



**Sample CSB**  
**Statement of Revenues, Expenses, and Changes in Net Assets**  
**June 30, 20xx**

Operating Revenue:

Net patient service revenue	\$8,521,433
Other	575,000
Total operating revenue	<u>\$9,096,433</u>

Expenses:

Salaries and benefits	\$10,666,799
Staff development	80,309
Occupancy	1,072,652
Supplies	506,573
Travel	372,897
Contractual and consulting	1,402,371
Depreciation	339,163
Other	351,772
Total expenses	<u>\$14,792,536</u>
Operating income (loss)	<u>\$(5,696,103)</u>

Non-operating income (loss):

Interest income	272,742
Appropriations:	
State plus federal pass-through	4,594,218
Local governments	749,932
Interest expense	(114,641)
Total non-operating income	<u>5,502,251</u>
Change in net assets	\$(193,852)
Net Assets, beginning of year	7,221,649
Net Assets, end of year	<u><u>\$7,027,797</u></u>

**Sample CSB**  
**Statement of Cash Flows (Direct Method)**  
**June 30, 20xx**

Cash Flows from Operating Activities:

Receipts from Clients	\$8,652,425
Payments to Employees	(10,629,671)
Payments to Vendors	(3,185,202)
Other Payments	(322,574)
Net Cash Used by Operations	<u>(5,485,022)</u>

Cash Flows from Non-capital Financing Activities:

State and Federal Appropriations	4,594,218
Local Government Appropriations	749,932
Net Cash from Non-capital Financing Activities	<u>5,344,150</u>

Cash Flows from Capital and Related Financing Activities:

Purchase of Capital Assets	(25,205)
Interest Paid on Capital Debt	(114,641)
Net Cash Used by Capital and Related Financing Activities	<u>(139,846)</u>

Cash Flows from Investing Activities:

Interest Income	272,742
Net Cash Provided by Investing Activities	<u>272,742</u>

Net Decrease in Cash and Cash Equivalents	(7,976)
Balances-Beginning of Year	4,645,590
Balances-End of Year	<u><u>\$4,637,614</u></u>

## **Uniform Cost Report (UCR)**

<b>Introduction</b>	Cost accounting is a vital function within the community services board environment. It is used to establish unit cost of service provision for internal management analysis. There tends to be a direct relationship between the quality of information derived from the function of cost accounting and the quality of management decision-making.
<b>Definitions</b>	<p>An understanding of the following definitions is important when analyzing cost accounting information.</p> <ul style="list-style-type: none"><li>▪ <b>Cost Accounting</b> - That form of accounting that has as its objective the costing of an activity, object or unit of service.</li><li>▪ <b>Cost Objective</b> - Any activity for which a separate measurement of cost is desired.</li><li>▪ <b>Direct Cost</b> - A cost that can be directly assigned to a given cost objective.</li><li>▪ <b>Indirect Cost</b> - A cost that is not easily assignable to a given cost objective. These costs must be allocated to the cost objective in accordance with their proportionate benefit derived.</li><li>▪ <b>Allocation Bases</b> - An allocation base represents the basis upon which a cost is to be allocated (e.g., square footage, FTEs, etc).</li></ul>
<b>Uniform Cost Report (UCR)</b>	A Uniform Cost Report (UCR) has been developed by DMHMRSAS to be used by all community services boards beginning with FYE June 30, 2002. The complete UCR is on the Department's website at <b><a href="http://www.dmhmrzas.state.va.us">www.dmhmrzas.state.va.us</a></b> .

## **Chapter 6: Federal Grants Management**

### **Table of Contents**

Introduction, 61

Types of CSB Awards, 61

## **Federal Grants Management**

**Introduction** DMHMRSAS is the recipient of many federal awards with the largest being the Substance Abuse Prevention and Treatment (SAPT) Block Grant. Most awards to the Department are non-competitive and on going. This chapter discusses how the federal grants impact on financial management.

**Oversight** The Department monitors awards for fiscal and program compliance. Compliance is based on regulations from the federal grantor and regulations from the U. S. Office of Management and Budget. CSBs are sub-recipients of all awards passed through the Department as grants.

### **Types of CSB Awards**

**Allocated Grants** Grants are usually allocated based on formulas, history, requests for proposals (RFP), or other events such as natural disasters.

**Reimbursed Grants** Grants where payment is linked directly to the completed performance of some activity. The following table shows the federal funding sources from which the CSBs have received funds. The Department is the recipient and the CSB is the sub-recipient.

<b>Title of Federal Grants to CSBS</b>	<b>CFDA No.</b>	<b>Performance Contract</b>	<b>Other</b>
Early Intervention Part C	84.181	X	
HIV Counselors	93.188	X	
Child Care Block Grant	93.575	X	
PATH	93.150	X	
SA Prevention & Treatment Block Grant (SAPT)	93.959	X	
MH Block Grant	93.958	X	
Shelter Plus	14.238	X	
Richmond CSB Residential A & D Program	93.102	X	
VA Topps II – ST Treatment Outcomes	93.238	X	
TANF/LINK Welfare To Work	17.253	X	
VA Comprehensive System of Care	93.104	X	

**Performance Contract** All federal grants are budgeted on the Performance Contract and reported to the State on quarterly performance reports.

## **Chapter 7: Fixed Asset Management**

### **Table of Contents**

Introduction, 63

Fixed Asset Definitions, 63

Acquiring and Disposing of Fixed Assets, 65

Fixed Asset Listings and Physical Inventories, 65

Federal Requirements, 67

Capital Lease Determinations, 69

Recording Capital Leases, 69

## **Fixed Asset Management**

**Introduction** This chapter discusses fixed asset management and provides guidelines for establishing fixed asset listings and physical inventory. Other CSBs and localities may also provide help when designing a fixed asset system. There are many objectives of fixed asset management such as providing information for:

- Financial statement preparation
- Substantiation of insurance claims
- Planning and budgeting
- Repair and maintenance planning
- Accountability & loss prevention
- Disposal
- Cost recovery
- Identification of idle or obsolete assets

### **Fixed Asset Definitions**

**General Definition** Fixed assets most often consist of land, buildings, improvements, equipment, and construction in progress.

**Capitalization Limit** A CSB should establish its own threshold for capitalization of fixed assets.

**Example:**

All fixed assets acquired with a value of over \$500 and a useful life greater than 1 year will be capitalized and accounted for in the fixed asset management system. A CSB should state this policy in writing.

The table on the next page presents definitions/descriptions of assets and capitalized costs.

Asset Type	Definition/Description	Capitalized Cost
Land	Real property whose title is held by a CSB	<ul style="list-style-type: none"> <li>- Purchase Price</li> <li>- Incidental Costs/Fees: <ul style="list-style-type: none"> <li>Legal and title fees</li> <li>Survey/recording fees</li> <li>Appraisal fees</li> <li>Site preparation fees</li> </ul> </li> </ul>
Buildings	Roofed structures for permanent or temporary storage of people or things. HVAC systems would be included as a separate category of buildings.	<ul style="list-style-type: none"> <li>- Purchase/constructed Cost</li> <li>- Incidental Costs/Fees: <ul style="list-style-type: none"> <li>Architect fees</li> <li>Other professional fees</li> <li>Insurance</li> </ul> </li> <li>- Improvements that extend the useful life</li> </ul>
Improvements (other than Buildings)	Non-building and non-land related improvements such as paving, fencing, concrete work	- Purchase or constructed price
Capital Leases	Leases which are in substance the acquisition of fixed assets (see section F & G)	<ul style="list-style-type: none"> <li>- Net present value of the lease payments</li> <li>- Include in asset type Buildings or Equipment</li> </ul>
Equipment	<p>Property of any kind which</p> <ul style="list-style-type: none"> <li>-is complete in itself</li> <li>-does not lose identity or become a building component.</li> </ul> <p><u>Component Parts:</u> Part of a unit of equipment that cannot be used independently should be included in the cost of the equipment unit. For example, component parts of a PC (cpu, monitor, and keyboard) should be included in the cost of the PC.</p>	<ul style="list-style-type: none"> <li>- Purchase price</li> <li>- Incidental Costs, such as freight and transportation charges</li> </ul>
Leasehold Improvements	Improvements to leased property such as buildings, walkways, permanently installed equipment	<ul style="list-style-type: none"> <li>- Purchase or constructed price</li> <li>-Include in asset type Buildings or Equipment</li> </ul>
Construction in Progress	<p>Project-to-Date labor, materials, and equipment.</p> <p>After construction is completed, the total amount would normally be reclassified to the building asset type.</p>	<ul style="list-style-type: none"> <li>- Purchase or constructed price</li> <li>-Insurance and interest during construction</li> </ul>



## **Acquiring and Disposing of Fixed Assets**

**General Rule** Fixed assets are generally recorded at the purchase price amount plus incidental costs as noted in the previous section, **Description and Capitalized Costs**.

**Acquiring Fixed Assets** Refer to previous section, **Description and Capitalized Costs**.

**Donated Assets** Donated assets should be recorded at the fair market value on the date of donation.

**Tagging** Once assets have been purchased, they should be tagged or engraved with a label that indicates ownership and a sequential number assigned to it. (See example below).

Example:

Virginia CSB 001
---------------------

**Disposing of Fixed Assets** There are several ways to dispose of assets:

- By sale or trade-in
- By scrapping due to obsolescence
- Due to theft or other losses

Regardless of the method or reason for disposal, the asset should be removed from the accounting records at the total amount capitalized less applicable depreciation.

## **Fixed Asset Listings and Physical Inventories**

**Fixed Asset Listing** A Fixed Asset Acquisition Listing is a report showing the detail of all assets acquired. The type of software used will normally dictate the particular content and arrangement of a listing. This listing should be stored in a fireproof safe. A Fixed Asset Disposal Listing provides disposal information for assets no longer in possession of the CSB. See examples below.

Fixed Asset Acquisition Listing for Virginia CSB						
Class Code (Asset Type)	Property Description	Location	Custodian	Serial Number	Inventory Tag Number	Acquisition Date
4000	Executive Desk	Exec's Office	Exec. Sec.	1234567B	0001	July 1, 2002
Fixed Asset Disposal Listing for Virginia CSB						
Disposal Date	Disposition Sales Price	Funding Source	% Federally Funded	Cost	Check #/ PO Number	
		State	0%	\$650.00	23540	

**Class Code**

A chart of accounts should be designed for class codes that indicate the code number and description.

Example:

- 1000 Land
- 2000 Buildings
- 3000 Other Improvements
- 4000 Equipment
- 5000 Construction in Progress

These codes could be expanded to include more specific information such as whether property was purchased with federal or state funds, and more descriptive information.

Example:

- 4100 Federal Equipment
- 4110 Federal Furniture
- 4120 Federal Computers
- 4200 State Equipment
- 4210 State Furniture

**Conducting Physical Inventories**

Physical inventories of fixed assets should be conducted annually or every two years if the volume of fixed asset purchases is small. Proper planning and advance preparation can ensure an efficient inventory. Consider the following:

- Select a cut-off date for fixed asset purchases

- Ensure that the fixed asset listing has been updated as of the cut-off date.
- Prepare a written plan to conduct the inventory and notify personnel.
- Taking the inventory is a detailed process. Using an updated fixed asset listing, go to each location and perform the following:
  - Check-off items noted on the listing.
  - Make a list of items not appearing on the listing and investigate.
  - Investigate any items on the listing that are not physically located.
  - Prepare an updated listing and summarize the results of the inventory and any suggestions for improvement or follow-up.

**Note:** The use of colored stickers or inventory tags to indicate that an item has been inventoried is good to avoid errors in taking the inventory.

#### **Purpose of Inventory**

The fixed asset inventory is useful in verifying the following:

- Existence of asset
- Current condition
- Utilization
- Continued need for the property

### **Federal Requirements**

#### **Introduction**

Federal requirements for fixed assets are contained in numerous federal publications. This section summarizes some of the more important requirements. A listing of federal publications is contained later in this section. CSB fiscal directors should be familiar with the federal publications and individual grant requirements surrounding fixed assets.

#### **Unallowable Costs**

CSBs are **not** permitted to expend federal grants for the following:

- Improvement of land
- Purchase, construct or permanently improve any building or other facility (other than minor remodeling)
- Purchase major medical equipment

#### **Title to Assets**

Title to equipment acquired under a grant or sub-grant will vest upon

acquisition in the name of the grantee or sub-grantee (CSBs and their contractual agencies).

### Use of Assets

Equipment shall be used in the program for which it was acquired. When no longer needed for the original program, the equipment may be used in other programs.

### Replacement Equipment

When acquiring replacement equipment, the CSB may use the equipment to be replaced as a trade-in or sell the property and use the proceeds to offset the cost of the replacement property.

### Disposal of Equipment

The following decision table explains when to dispose of items of equipment.

When...	And...	Then...
items of equipment are no longer needed.	fair market value is less than \$5,000.	retain or sell with no further obligation.
items of equipment are no longer needed.	fair market value is in excess of \$5,000.	awarding agency has right to its percentage of the proceeds.

### Federal Publications

CSB fiscal officers may consult the following federal publications for further information and guidance concerning the management of fixed assets purchased with federal funds. Refer to the table below.

OMB Circular #	Title
A-87	Cost Principles for State and Local Governments
A-102 (Common Rule)	Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments (March 11, 1988 update)
A-110	Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations
A-133	Audits of Institutions of Higher Education and Other Non-Profit Institutions

## **Capital Lease Determinations**

### **Introduction**

This section describes accounting for capital leases. NCGA Statement #5 and FASB Statement #13 provide guidance for capital leases.

### **Criteria for Capital Leases**

NCGA-5 requires that a lease agreement that satisfies the criteria established by FASB-13 be capitalized. FASB-13 states that noncancelable leases that meet any one of the following criteria must be capitalized (NCGA-5, par. 12):

1. The lease transfers ownership of the property to the lessee by the end of the lease term.
2. The lease contains a bargain purchase option.
3. The lease term is equal to 75% or more of the estimated economic life of the leased property.
4. The present value of the minimum lease payments at the inception of the lease, excluding executory costs, equals at least 90% of the fair value of the leased property.

A bargain purchase option exists when the lessee can exercise a provision in the lease and buy the property sometime during the term of the lease at an amount substantially less than the estimated fair value of the property.

Lease payments include the minimum rental payments based on the term of the lease, excluding executory costs, such as payments for insurance and property taxes.

When determining the present value of the lease payments, the lessee should use its incremental borrowing rate. However, the lessee should use the lessor's implicit interest rate to determine the present value of the lease payments.

## **Recording Leases**

### **Recording Capital Leases**

Because of the shift from the Healthcare Model of financial reporting to the Enterprise Fund Model as prescribed by Governmental Accounting Standards Board (GASB) Statement 34, accounting methodology for capital leases also requires a change. The example presented below provides guidance regarding accounting for capital lease transactions.

**Assumptions:**

1. Equipment is leased for a five-year period.
2. The equipment has an estimated useful life of five years.
3. The lease is signed on July 1, 2003 and begins on this date.
5. Five annual payments, beginning July 1, 2003 will be made. Each payment will be in the amount of \$50,000.
6. The fair market value of the equipment at the inception of the lease is \$208,493. This amount is computed as follows:

Annual Lease Payments	\$50,000
Present Value of an Annuity Due, Interest Rate at 10% for five periods	<u>x 4.16986</u>
Present Value of Minimum Lease Payments	<u>\$208,493</u>

7. Depreciation expense is to be charged using the straight-line method over a period of five years.

The new capital lease would be recorded as follows within the Enterprise Fund:

1.	Assets Under Capital Leases (Debit)	\$208,493	
	Capital Lease Obligation (Credit)		\$208,493
To record the initial setup of the capital lease obligations			
2.	Capital Lease Obligations (Debit)	\$50,000	
	Cash (Credit)		\$50,000
To record the first least payment made on July 1, 2003			
3.	Expenditures-Capital Lease Principal (Debit)	\$34,151	
	Expenditures-Capital Lease Interest (Debit)	\$15,849	
	Cash (Credit)		\$50,000
To record principal interest payment associated with the second annual lease payment made on July 1, 2004			
4.	Expenditures-Capital Lease Principal (Debit)	\$37,566	
	Expenditures-Capital Lease Interest (Debit)	\$12,434	
	Cash (Credit)		\$50,000
To record principal interest payment associated with the third annual lease payment made on July 1, 2004			
5.	Expenditures-Capital Lease Principal (Debit)	\$41,322	
	Expenditures-Capital Lease Interest (Debit)	\$8,678	
	Cash (Credit)		\$50,000

To record principal interest payment associated with the fourth annual lease payment made on July 1, 2004

6.	Expenditures-Capital Lease Principal (Debit)	\$45,454	
	Expenditures-Capital Lease Interest (Debit)	\$4,546	
	Cash (Credit)		\$50,000

To record principal interest payment associated with the final annual lease payment made on July 1, 2004

7.	Depreciation Expense (Debit)	\$41,699	
	Accumulated Depreciation (Credit)		\$41,699

To record the annual charge to depreciation

## **Chapter 8: Cash Management**

### **Table of Contents**

Executive Summary, 73

Model Investment Policy for CSBs, 74

Internal Control Issues:

- CSB Self Evaluation, 81

Revenue Maximization Issues

- RFP for Banking Services, 83
- High Interest Loans, 83
- Debt Set-off, 83
- Local Investment Pool (LGIP), 83

Training/Certification Opportunities, 84

Code of Virginia (Title 2.2 – Administration of Government)

- Virginia Security for Public Deposits Act (§4400-4411), 85
- Investment of Public Funds Act (§4500-4517), 85



## **Executive Summary**

<b>Overview</b>	<p>This chapter presents a model investment policy, internal control issues surrounding cash, cash management training, and references to relevant laws for public funds management (Code of Virginia). This Chapter was developed under the guidance of the Virginia Department of the Treasury and a large commercial bank.</p>
<b>CSB Annual Report</b>	<p>The <i>CSB Annual Report</i> contains a variety of financial statistics concerning CSBs based on information from the previous fiscal year's audit report. This includes Cash Balances, Investments, and Earnings. Key figures from FY 2002 audit reports:</p> <ul style="list-style-type: none"><li>• Cash &amp; Investments for CSBs totaled \$46 million as of June 3</li><li>• Total Revenues amounted to \$614 million</li></ul> <p>The <i>CSB Annual Report</i> is located on the Office's web site at <a href="http://www.dmhmrzas.state.va.us">www.dmhmrzas.state.va.us</a>.</p>
<b>Model Investment Policy</b>	<p>This section presents a model for use by CSBs. A stand-alone document of this section is also contained on the Office's web site. Each operating CSB should adopt this or a similar policy for use in setting out the cash and investment policies of the CSB and establishing the degree of risk the CSB is willing to assume. This section contains the objectives of a CSB's investment policy, authorized investments, diversification, and reports to the Board. This section concludes with various definitions including authorized investments.</p>
<b>Internal Control Issues</b>	<p>This section contains a self-evaluation checklist (30 questions) of important internal controls over cash. Questions are arranged by compliance, authorization, efficiency, and revenue maximization.</p>
<b>Revenue Maximization</b>	<p>This section discusses several revenue maximization ideas noted on the Internal Control Self-Evaluation Checklist. Topics include RFP for Banking Services, Refinancing High Interest Debt, Debt Setoff, and the LGIP program.</p>
<b>Training</b>	<p>This section describes the training and certification program for cash management offered by the Treasurers' Association of Virginia. The certification program has a total of 6 classes. Certification programs are also available for the CFA (Chartered Financial Analyst).</p>
<b>Code of Virginia</b>	<p>This section lists the two primary laws governing the security of public deposits and the investment of public funds. They are contained in Chapters 44 and 45 of Title 2.2. A web site address is provided to access these code sections.</p>

## **Model Investment Policy**

<b>Introduction</b>	<p>This section contains a sample investment policy or strategy that may be adopted by CSBs. This document is located on the DMHMRSAS web site in an MS Word format for modification by CSBs. CSBs may modify this document for individual use. Relevant Code of Virginia sections are contained at the end of this chapter.</p>
<b>What is it?</b>	<p>An Investment Policy (for deposits and investments) is a policy that has been formally adopted by the CSB and limits the CSB's allowable deposits and investments. These policies communicate the CSB's tolerance for risk and in effect set the boundaries where investments may be made.</p>
<b>Overview</b>	<p>It is the policy of the Virginia CSB to invest public funds in a manner which will provide the maximum security with the highest investment return while meeting the cash flow demands of the CSB and conforming to all applicable laws governing the investment of public funds. Investments shall be made with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. Further, it shall be the policy of the CSB that all investments and investment practices meet or exceed all statutes and guidelines governing the investment of public funds in Virginia.</p> <p>The CSB shall take all possible precautions to minimize the credit risk of its investments. This includes the monitoring of the credit worthiness of the banks in which the CSB deposits its money.</p> <p>The CSB shall not enter into transactions considered speculative in nature. These transactions include investing long-term those monies available for short-term use and the borrowing of funds for investing.</p> <p>The CSB shall obtain the best possible price on all transactions and deal only with reputable banks, brokers and/or dealers.</p> <p>This Model Investment Policy sets forth the responsibilities of the CSB relating to the implementation of its investment policy and asset strategy and evaluation and review of investment performance and progress toward attaining goals.</p>
<b>Authority</b>	<p>The Director of Finance of the CSB, "Director", is an officer whose responsibility in part is receiving, collecting, safeguarding and disbursing CSB funds from all sources. The Director, or his designee, is granted the authority to administer the financial affairs of the CSB including custody and deposit of all public funds belonging to or handled by the CSB in §2.2-4501, of the Code of Virginia, 1950</p>

as amended. Funds of the CSB shall be invested in accordance with the Code of Virginia, Investment of Public Funds Act, Chapter 45, Title 2.2, Sections 2.2-4500-4517 and the Virginia Security for Public Deposits Act, Chapter 44, Title 2.2, Sections 2.2-4400-4411.

§ 2.2-4410 provides that when investments are made in accordance with the Investment of Public Funds Act, no treasurer or public depositor shall be liable for any loss there from in the absence of negligence, malfeasance, misfeasance, or nonfeasance on his part or on the part of his assistants or employees.

## **Objectives**

The CSB's primary objectives, in priority order, of the cash and investment activities are as follows: To assure the **safety** of principal; to provide **liquidity** as required to satisfy cash flow needs; and to maximize investment income or **return on investment** within the constraints of all laws of the Commonwealth of Virginia governing investment of public funds.

### **Safety**

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the maximum preservation of capital in the overall portfolio. **The objective will be to mitigate credit risk and interest rate risk.**

### **Credit Risk**

Minimize credit risk (the risk of loss due to the failure of the security issues or backer) by:

- Limiting investments to the safest types of securities;
- Pre-qualifying the financial institutions, brokers/dealers, intermediaries and advisors with which the CSB does business; and
- Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

### **Interest Rate Risk**

Minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity; and
- Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.

### **Financial Statement Credit Risk**

In order to limit financial statement credit risk, the CSB's investments shall be

maintained in a manner consistent with the Governmental Accounting Standards Board (GASB) Statement No. 3, "Accounting and Financial Reporting for Deposits with Financial Institutions, Investments, and Reverse Repurchase Agreements." This statement categorizes assumed credit risk at the following three levels or categories:

Category 1	Category 2	Category 3
Includes investments that are insured or registered or for which the securities are held by the CSB or its safekeeping agent in the CSB's name.	Includes uninsured or unregistered investments for which the securities are held by the financial institution's trust department or safekeeping agent in the CSB's name.	Includes uninsured or unregistered investments for which the securities are held by the broker or dealer or by its safekeeping agent.
The highest level of safety.		

Every effort is made to ensure that the CSB's investments are categorized at Category Level 1 as described above were possible. This is accomplished through a trust agreement with a bank as agent to take custody of the collateral in the CSB's name. The Director will evaluate which category investments will be classified and taking into account the higher custodial costs associated with Category 1 investments compared to Category 2 and 3 Investments.

#### **New GASB Statement (No 40):**

The Governmental Accounting Standards Board issued Statement Number 40 on March 27, 2003, *Deposits and Investment Risk Disclosures*. This new statement amends GASB statement 3 and is effective for FY 2005. This statement essentially updates the custodial risk disclosure requirements and establishes more comprehensive disclosure requirements addressing other common risks. The CSB will change its current financial statement disclosures to conform to GASB 40 for FY 2005 or sooner.

#### **Liquidity**

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). A portion of the portfolio also may be placed in money market funds or local government investment pools, which offer same-day liquidity for short-term funds.

#### **Return on Investment**

The investment portfolio shall be designed with the objective of attaining a

market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. Core investments should be limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exception:

- A security with declining credit may be sold early to minimize loss of principal
- A security swap would improve the quality, yield, or target duration in the portfolio; and
- Liquidity needs of the portfolio require that the security be sold.

## **Deposits**

### Deposit of Public Funds Not an Investment

Public funds on deposit are subject to the provisions of the Virginia Security for Public Deposits Act, Section 2.2-4400 et seq. and the Code of Virginia (1950), as amended, which includes demand and time deposits and certificates of deposit of national and state chartered banks. Also included are savings and loan associations located in Virginia. Under the Act, banks holding deposits in excess of the amounts insured by FDIC (Federal Deposit Insurance Corporation) must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. If any member bank fails, the entire collateral pool becomes available to satisfy the claims of governmental entities with the ability to make additional assessments. The multiple bank collateral pool functions similar to depository insurance. Savings and loan associations are required to collateralize 100% of deposits in excess of FDIC limits. The Commonwealth Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act.

## **Authorized Investments**

The CSB is authorized to invest in a variety of investments pursuant to Title 2.2, Chapter 45 of the Code of Virginia (1950), as amended. The CSB, however, has decided to limit its investments to the following 5 (five) instruments:

- Money market funds
- Repurchase agreements
- Local government investment pool
- U.S. Treasury and agency securities
- CDs (Non-Negotiable CDs-Certificates of Deposit) These are technically considered “deposits” as opposed to “investments” but are listed in this section.

The CSB will not invest in negotiable CDs. The CSB will obtain contracts for the Safekeeping of Securities. Securities purchased will be delivered against payment

to an agent of the CSB normally a non-issuing bank for safekeeping.

**Diversification** Investments shall be diversified by: limiting investments to avoid over concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities), limiting investment in securities that have higher credit risks, investing in securities with varying maturities, and continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LGIPs), money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

<b>Diversification by Instrument</b>	<b>Maximum %</b>
U.S. Treasury Obligations (bills, notes, bonds)	100
U.S. Government Agency Securities and Instrumentalities	100
Repurchase Agreements	100
Money Market	100
Non-Negotiable Certificates of Deposit-Commercial Banks	40
Non-Negotiable Certificates of Deposit-Savings & Loan Associations	10
Local Government Investment Pool	100

<b>Diversification by Financial Institution</b>	<b>Maximum %</b>
Repurchase Agreements	100
Non-Negotiable Certificates of Deposit-Commercial Banks	100
Non-Negotiable Certificates of Deposit-Savings & Loan Associations	100

<b>Diversification by Funds to be Invested in any One Issue</b>	<b>Maximum %</b>
FDIC Insured (unless fully collateralized)-per institution	\$100,000
Collateralized Certificates of Deposit	No limit
U.S. Treasury and Agencies	No limit

**Maximum Maturities**

To the extent possible, the CSB shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the CSB will not directly invest in any single security maturing more than three (3) years from the date of purchase. The aggregate principal amount of securities with maturity dates in excess of one (1) year shall be limited to 30% of the average monthly portfolio balance for the previous fiscal period.

**Reporting to the Board**

The Director of Finance will report to the Board, on a regular basis, such information, as the Board requires fulfilling its review function. At its discretion, the Board may require additional information or clarification from the Director of Finance, either orally or in writing.

The reports to the Board shall contain: a summary of cash and investments

by depository, a listing of short-term investments and a detailed report of the investments held in the custodial account, and any other information the Director of Finance deems appropriate. A separate report shall be prepared for each calendar month, as of the last day of the month.

## Sample Report

### Virginia CSB Summary of Cash and Investments by Depository

Deposits as of June 30, 2003

Institution	Total Amount	Percent	Saving	<u>Non - Neg. CD</u>
Bank 1	\$300,000	50%	\$30,000	
Bank 2	60,000	10%	0	
Bank 3	40,000	7%	0	40,000
LGIP	200,000	33%	200,000	
Total Investments	\$600,000	100%	\$230,000	\$100,000

Amount noted above represents checking account balances unless other distribution noted (e.g., Savings or CD).

The following funds are not reflected in the CSB's Investment totals:

CSB Client/SSA Funds	\$45,000
HUD Escrow	\$150,000

Certification of Investments by Director of Finance

The investments of the CSB as listed above, collectively and individually conform to the Code of Virginia and the Virginia CSB's Investment Policy.

Signature: \_\_\_\_\_  
Date: \_\_\_\_\_

## Definitions

The following are various definitions relevant to this chapter.

**Money Market Fund** - A broad range of short-term government, bank and commercial obligations can offer you the potential for attractive current income with minimal risk.

**Repurchase Agreements** - A repurchase agreement (repo) is a transaction between a securities dealer and an investor in which the dealer sells the security to the investor with an agreement to buy the security back from the investor at a specific time and at a price that will result in a predetermined

yield to the investor. The investor is lending the dealer money and the dealer is lending the investor securities. Repo transactions are done overnight, for a specified number of days, or as a continuing open contract.

**Local Government Investment Pool** - a short-term investment pool offered to public entities of the Commonwealth and is managed by the Virginia Department of the Treasury. The pool outperformed 91-day T-Bills and Taxable Institutional Money Market funds for the past 5 years (FY 98-FY 02). See LGIP Circular to details.

**U.S. Treasury and Agency Securities** - Interest-bearing obligations of the U.S. government issued by the Treasury as a means of borrowing money to meet government expenditures not covered by tax revenues. Marketable Treasury securities fall into three categories - bills, notes, and bonds. The Federal Reserve System holds more than \$125 billion of these obligations, acquired through open market operations. Marketable Treasury obligations are currently issued in book entry form only; that is, the purchaser receives a statement, rather than an engraved certificate.

**Certificate of Deposit** - A time deposit at a bank or savings institution. A time deposit cannot be withdrawn before a specified maturity date without being subject to an interest penalty for early withdrawal. Small-denomination CDs are often purchased by individuals. Usually, Large CDs of \$100,000 or more are in negotiable form. In other words, large CD's can be sold or transferred among holders before maturity.

**Compensating Balances** - Minimum balances held by a firm in its checking account which compensate the bank for various services rendered to the firm, such as processing checks written by the firm. The bank either loans or invests these balances and thus generates interest income for itself.

**Electronic Data Interchange (EDI)** - EDI is the computer-to-computer exchange of business data in standard formats. In EDI, information is organized according to a specified format set by both parties, allowing a "hands-off" computer transaction that requires no human intervention or re-keying on either end. All information contained in an EDI transaction set is, for the most part, the same as on a conventionally printed document.

Organizations have adopted EDI for the same reasons they have embraced much of today's modern technology-enhanced efficiency and increased profits. Benefits of EDI include: Reduced cycle time, Better inventory management, Increased productivity, Reduced costs, Improved accuracy, Improved business relationships, Enhanced customer service, Increased sales, Minimized paper use and storage, and Increased cash flow.

**Source:** various web addresses including [www.e-analytics.com](http://www.e-analytics.com)



## Internal Control Issues

**Introduction** This section contains a self-evaluation of internal control over cash that CSBs may use to evaluate the strength of existing internal controls over cash. This series of 30 questions are categorized as follows: Compliance, Authorization, Efficiency, and Revenue Maximization. A good system of internal control is management's responsibility. Internal Control is defined in Chapter 4 of this guide.

<b>Internal Control over Cash – CSB Self-evaluation</b>		
<b>No.</b>	<b>AREA ("No" responses should be reviewed/discussed)</b>	<b>Response Yes/No</b>
<b>Compliance</b>		
1	Has the CSB developed and adopted an Investment Policy?	
2	Are authorized CSB check signers included in Financial Policies and Procedures and/or Board Minutes?	
3	Has the CSB established a policy governing how often cash receipts are deposited with the bank (e.g., daily or when cash balance reaches a certain level)?	
4	Has the CSB established a policy on a reasonable amount that is kept on hand for client spending?	
5	Are the sequences of pre-numbered receipts used and issued accounted for to ensure all receipts are accounted for?	
6	Is blank check stock properly safeguarded, secured, and accounted for (e.g., use of a check log)?	
7	Are pre-numbered charge tickets used and accounted for?	
8	Are periodic internal audits conducted on petty cash and client/SSA funds? (Audit Reports should be prepared).	
9	Are bank accounts (CSB operating and individual client accounts) reconciled within two weeks of receipt of the statement?	
10	Are checks outstanding over 90 days old researched and reissued? (If checks cannot be reissued, funds must be reported on the Annual Unclaimed Property Report).	
11	Has the CSB established a line of credit? (Include amount and outstanding balance in audit report).	
<b>Authorization</b>		
12	Does the Finance Director approve check registers?	
13	Are bank account reconciliations approved by a supervisor? The preparer and supervisor should sign and date.	
14	Are signature stamps properly controlled? (Accounts payable and payroll staff should not have access)	
15	Are duties structured so that no single individual has total control to initiate, approve, and submit accounting transactions?	
16	Are the payroll and accounts payable functions segregated?	
17	Are credit card transactions monitored and reviewed?	

	<b>Efficiency</b>	
18	Have the number of bank and petty cash accounts been reviewed for possible consolidation?	
19	Are bank statements user-friendly (i.e., checks should be listed in sequential order)?	
20	Is the standard bank reconciliation format used and does the reconciliation balance? (Bal per Bank plus Deposits in Transit minus O/S Checks)= (Bal per Computer plus/minus Adjustments)	
21	Is the bank statement used to reconcile? (Actual cancelled checks should not be used for reconciliations).	
22	Is direct deposit used for CSB payroll? (CSB should encourage maximum employee participation).	
23	Is the CSB taking advantage of technological advances in bank treasury management services? Examples of treasury management services: a. Direct Deposit (payroll) b. On-line Banking c. Zero Balance or Sweep Accounts- (overnight investment of idle funds into repurchase agreements). d. Electronic Data Interchange (EDI) (see Definitions section) e. Lock Box (CSB payments sent to bank's lock box and are deposited immediately. CSB is sent remittance advices. The use of a lock box reduces mailing, payment processing, and check clearing times.) f. Reconciliation Services (CSBs who issue more than 150-200 checks per month should consider using these services provided by their bank for full or partial reconciliation). g. Check Imaging (CSBs can have their checks placed on CD-ROM for easy research and retrieval. Eliminates need to store cancelled checks).	
	<b>Revenue Maximization</b>	
24	Is excess cash invested (as authorized by the Code of Virginia)?	
25	Does the CSB periodically issue an RFP for Banking Services to ensure services are competitively procured?	
26	Have high interest loans been refinanced where practical?	
27	Are daily deposits of checks and cash made?	
28	Does the CSB participate in the debt setoff program?	
29	Does the CSB participate in the LGIP program?	
30	Does the CSB receive and analyze its Monthly Account Analysis statement from its bank? (CSB should ensure soft dollars and compensating balances are established in accordance with its Contract documentation)	

## **Revenue Maximization Issues**

<b>Overview</b>	<p>This section discusses some revenue maximization issues and ideas noted on the CSB Self-Evaluation on the previous page.</p>
<b>RFP for Banking Services</b>	<p>The Office of Financial Reporting and Compliance developed a Model RFP for Banking Services in 2000. This model is located on the Office's web site under "publications" and has been used by many CSBs in developing an RFP for Banking Services.</p> <ul style="list-style-type: none"><li>▪ The use of this RFP by CSBs helps to ensure that banking services are competitively bid and revenues are maximized to the degree possible.</li><li>▪ At a minimum, CSBs should be earning a return on operating accounts so that all excess funds are always earning a return or determine ways to reduce or avoid services charges.</li></ul>
<b>High Interest Loans</b>	<p>Interest rates are currently the lowest in decades. CSBs should review existing loans (terms and rates) and determine if it is cost effective to refinance.</p>
<b>Debt Setoff</b>	<p>CSBs are permitted to submit delinquent accounts receivable to the Department of Taxation for participation in the State's Debt Set-Off Program. Previously (prior to 2003) CSBs submitted delinquent accounts receivable to DMHMRSAS and DMHMRSAS sent these accounts to Taxation.</p> <p>CSBs should contact Marion Jackson, Virginia Department of Taxation, at (804) 367-8380 to obtain enrollment information.</p>
<b>LGIP</b>	<p>The Local Government Investment Pool (LGIP) is a short-term investment pool offered to public entities of the Commonwealth and is managed by the Virginia Department of the Treasury. Through the years LGIP participants have earned a very competitive rate of return while at the same time having daily access to their funds. This is possible through the depth of Treasury's investment management expertise, economies of scale, and a low investment management fee. Each participant owns proportional shares of a diversified investment portfolio, which is actively managed to comply with Virginia's Investment of Public Funds statutes, all GASB requirements, and Commonwealth of Virginia Treasury Board investment guidelines.</p> <p>To enroll or obtain account information call 800.643.7800. Further information is available at <a href="http://www.trs.state.va.us">www.trs.state.va.us</a>.</p>

## **Training and Certification in Cash Management**

### **Cash Management Expertise**

Most Directors of Finance (CSBs and other agencies) are not experts in cash management. Although they have responsibility for cash management, it is a sideline area for them and not an area of specialty. CSB staff can begin gaining expertise in this area through training and development activities.

### **Treasurers' Association Program**

There are many opportunities available to CSB staff interested in obtaining training in cash management. For example, Virginia has a certification program used primarily by local government treasurers' offices but open to other local government finance managers. The Treasurers' Association of Virginia, certification, is a 6 class program. The program contains two tracks: basic and advanced. The cost of each class ranges between \$150-\$175. Training is offered periodically and includes the following subject areas:

- Management practices
- Introductory accounting
- Intermediate accounting
- Roles and responsibilities of the treasurer
- Virginia Government and Law
- Personnel practices
- Bankruptcy
- Delinquent tax collections
- Cash management
- Auditing and internal controls
- Communication skills
- Technology workshop
- Leadership skills and customer service
- Advanced cash management

For further information on certification and cash management training with the Treasurers' Association of Virginia, contact the current president listed on the association's website at [www.institute.virginia.edu/tav](http://www.institute.virginia.edu/tav) or Al Spangler at the Virginia Institute of Government at 434-982-5518 or [aws@virginia.edu](mailto:aws@virginia.edu).

### **CFA Chartered Financial Analyst**

The Association for Investment Management and Research (AIMR) sponsors an international certification program for investment professionals. For further information about the CFA certification, see [www.aimr.com](http://www.aimr.com)

## **Code of Virginia (Title 2.2 –Administration of Government)**

**Introduction** This section references the two primary laws governing the security of public deposits and the investment of public funds. They are contained in Chapters 44 and 45 of Title 2.2.

- Virginia Security for Public Deposits Act (§4400-4411)
- Investment of Public Funds Act (§4500-4517)
- The Code of Virginia is maintained by the Virginia Legislative Information System at the following web address:

<http://leg1.state.va.us/lis.htm>

Once at this site, select Code of Virginia (under Searchable Databases). Then select or browse the Table of Contents.

**Chapter 9:  
Audit Requirements for CSBs  
and  
CSB Contract Agencies**

**Table of Contents**

Introduction, 87

Independent Audit Reporting Requirements:

- Management Letters, 88
- Plans of Correction, 88
- CSB Related Organizations, 88

OMB Circular A-133, 89

Additional Disclosures Requested From Auditors, 90

Independent Audit Requirements for Contract  
Agencies, 93

## Audit Requirement for CSBs And Contract Agencies

**Introduction** This chapter provides guidance for CSBs, CSB Contract Agencies, and auditors in reference to auditing and audit related topics. Federal and state audit reporting guidelines and requirements as they relate to CSBs and CSB Contract Agencies will be covered.

### Independent Audit Reporting Requirements

**Audit Report Due Dates** The table below summarizes audit reporting due dates for fiscal years ending June 30 for CSBs and CSB Contract Agencies. There are audit-reporting requirements that are specifically stated in the Code of Virginia and others that are requested by the Department.

Description	APA Due Date	DMHMR Due Date	Fed. Due Date
Audit Reports: CSBs	Oct. 1*	Nov. 30	<b>Note 1</b>
Audit Reports: Local Government CSBs ( <b>Note 2</b> )	Nov. 30	Nov. 30	<b>Note 1</b>
Audit Reports: CSB Contract Agencies	N/A	Nov. 30	<b>Note 1</b>
Audit Reports: CSB Related Organizations	N/A	Nov. 30	<b>Note 1</b>
APA Form 110	Nov. 30	N/A	<b>Note 1</b>
Management letters and other reports issued by the auditor	----	Nov. 30	
Plans of Correction to all auditor findings and communications	----	Nov. 30	

\* Although the October 1 due date is required by statute, the APA has agreed not to penalize CSBs that submit their audit reports by November 30. CSBs are encouraged to submit documents earlier than the DMHMRSAS deadlines noted above.

**Note 1:** Where total federal expenditures exceed \$300,000, submit two (2) copies of the reporting package. For fiscal years ending June 30, the due date is March 31 of the next fiscal year (9 months after year-end) or 30 days after receipt of the audit report whichever is earlier.

**Note 2:** Single jurisdiction CSBs are not responsible for APA audit report submissions.

<b>Management Letters</b>	Management letters offer valuable suggestions for improvement in financial management and internal controls to a CSB or Contract Agency. Executive Directors should request that auditors provide a management letter with each audit.						
<b>Plans of Correction</b>	The Executive Director should prepare Plans of Correction to auditor findings and other communications, such as management letters and reports on internal control. The plans should be addressed to the auditor with a copy to DMHMRSAS.						
<b>CSB Related Organization Audit Reports</b>	<p>All CSB related organization audit reports should be submitted to DMHMRSAS for review.</p> <p><b>Definition:</b> A CSB related organization is any organization or company that the CSB formed for purposes such as holding real estate, acquiring debt, or fund raising. These organizations are not component units by definition. DMHMRSAS is requesting copies of all non-component unit related organization audits.</p>						
<b>Where To Send Reports</b>	<p>The reports noted above should be sent to the following addresses with The number of copies as indicated.</p> <table><tr><td><p><b><u>APA (1Copy):</u></b> Auditor of Public Accounts Local Government Manager James Monroe Building, 8<sup>th</sup> Floor P.O. Box 1295 Richmond, VA 23214-1295</p></td><td><p><b><u>DMHMRSAS (2 Copies):</u></b> Dept. of MH, MR, and SA Services Division of Financial Administration Kenneth M. Gunn, Jr., Director P.O. Box 1797 Richmond, VA 23218-1797</p></td></tr><tr><td><p><b><u>Federal Govt. (2 Copies):</u></b> Federal Audit Clearinghouse Bureau of the Census 1201 East 10<sup>th</sup> Street Jeffersonville, IN 47132</p></td><td><p><b><u>Local Governments (1 Copy):</u></b> Operating CSBs should send 1 copy of their audit report to each local government that funds the CSB.</p></td></tr></table>			<p><b><u>APA (1Copy):</u></b> Auditor of Public Accounts Local Government Manager James Monroe Building, 8<sup>th</sup> Floor P.O. Box 1295 Richmond, VA 23214-1295</p>	<p><b><u>DMHMRSAS (2 Copies):</u></b> Dept. of MH, MR, and SA Services Division of Financial Administration Kenneth M. Gunn, Jr., Director P.O. Box 1797 Richmond, VA 23218-1797</p>	<p><b><u>Federal Govt. (2 Copies):</u></b> Federal Audit Clearinghouse Bureau of the Census 1201 East 10<sup>th</sup> Street Jeffersonville, IN 47132</p>	<p><b><u>Local Governments (1 Copy):</u></b> Operating CSBs should send 1 copy of their audit report to each local government that funds the CSB.</p>
<p><b><u>APA (1Copy):</u></b> Auditor of Public Accounts Local Government Manager James Monroe Building, 8<sup>th</sup> Floor P.O. Box 1295 Richmond, VA 23214-1295</p>	<p><b><u>DMHMRSAS (2 Copies):</u></b> Dept. of MH, MR, and SA Services Division of Financial Administration Kenneth M. Gunn, Jr., Director P.O. Box 1797 Richmond, VA 23218-1797</p>						
<p><b><u>Federal Govt. (2 Copies):</u></b> Federal Audit Clearinghouse Bureau of the Census 1201 East 10<sup>th</sup> Street Jeffersonville, IN 47132</p>	<p><b><u>Local Governments (1 Copy):</u></b> Operating CSBs should send 1 copy of their audit report to each local government that funds the CSB.</p>						
<b>References</b>	<p>The references and auditing standards as noted below should be followed by the auditor when conducting an audit.</p> <ul style="list-style-type: none"><li>▪ Generally Accepted Auditing Standards (GAAS)</li><li>▪ Governmental Auditing Standards (GAS) also known as the "Yellow Book":</li></ul>						



1. Single audit Standards
  2. OMB Circular A-133
  3. Compliance Supplements
- Virginia Auditor of Public Accounts (APA):
    1. Specifications for Audits of Authorities, Boards and Commissions (useful for multi-jurisdiction CSBs)
    2. Specifications for Audits of Counties, Cities, and Towns (useful for both single and multi-jurisdiction CSBs)
  - Virginia Department of MH MR SAS (DMHMRSAS):
    1. Request for Proposals for CSB Audit Contracts (useful for multi-jurisdiction CSBs)

### **OMB Circular A-133: Audits of States, Local Governments and Non-Profit Organizations**

#### **Introduction and Background**

OMB Circular A-133 was revised in June 1997 to provide that non-federal entities that expend \$300,000 or more in a year in federal awards shall have an audit conducted for that year in accordance with the provisions of this circular. The federal due date is the earlier of nine months after fiscal year-end or 30 days after receipt of the audit report.

This section discusses audit-reporting requirements per AICPA SOP 98-3, *Audits of States, Local Governments, and Non-Profit Organizations Receiving Federal Awards* (i.e., OMB Circular A-133).

#### **A-133 Reporting Package**

The A-133 Reporting Package consists of the following:

1. Financial statements and Auditors' Reports,
2. Schedule of Expenditures of Federal Awards,
3. Summary Schedule of Prior Audit Findings,
4. Corrective Action Plan, and
5. Data Collection Form (must be signed by the CSB or CSB Contract Agency). This form represents a summary of the reporting package. The auditor completes certain sections and also signs the form, which is available on the OMB website at **[www.whitehouse.gov/omb](http://www.whitehouse.gov/omb)**.

#### **Overall Auditor**

Audit reports should contain the following:

**Reports**

1. Independent Auditors' Report (opinion on financial statements and schedule of expenditures of federal awards).
2. Report on Internal control (related to financial statements and related to major programs).
3. Report on Compliance with laws, regulations, contracts and grants.
4. Schedule of Expenditures of Federal Awards as noted below.

Virginia CSB Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2001			
Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA	Pass Through Entity ID# (if applicable)	Federal Expenditures
US Dept. of HHS: VA DMHMRSAS: Mental Health Block Grant	93.958	N/A	\$357,000
Total US Dept. of HHS			\$357,000
Total Expenditures of Federal Awards			\$357,000

5. Schedule of Findings and Questioned Costs (should include 3 sections:
  - a) Summary of auditors' results,
  - b) Findings related to financial statements, and
  - c) Findings and questioned costs for federal awards.
6. Summary Schedule of Prior Audit Findings (include status of prior audit findings, if any, and reference number, SFQC).
7. The CSB or Contract Agency is required to prepare a Corrective Action Plan for each of the current year's findings. Some organizations include the Corrective Action Plan with the Schedule of Findings and Questioned Costs.

**Address: A-133  
Reporting  
Package**

Federal Audit Clearinghouse, Bureau of Census  
 1201 E. 10<sup>th</sup> Street  
 Jefferson, IN 47132

### **Additional Disclosures Requested From Auditors**

**Introduction**

Additional disclosures are requested from auditors for inclusion in annual audit reports. These disclosures are requested to assist the Auditor of Public Accounts and the DMHMRSAS Office of Financial Reporting and Compliance in their analyses. Multi-jurisdiction CSBs should ensure that their auditors are

aware of these requests. This section does not apply to single jurisdiction CSBs and contract agencies.

### **Comparative Presentation**

Comparative presentations of the current and previous fiscal year should be made for:

- Balance Sheet,
- Statement of Operations and Changes in Fund Balance, and
- Statement of Cash Flows.

**Note:** Similar titles as shown above for the financial statements should be used.

### **Client Funds**

Client funds held by the CSB should be recorded on the CSB's general ledger and reported in the financial statements. A note disclosure should be made as well.

### **Client Loans**

Temporary loans to clients should be recorded on the CSB's general ledger and presented as a receivable in the financial statements.

### **Interest**

Interest earnings should be separately presented. Do not include in other or miscellaneous income.

### **Local Funding**

The APA requests that local tax revenues be detailed by locality, not simply in total. See the example below.

Example: Hampton-Newport News CSB

Local Tax Revenues:

City of Hampton	\$50,000
City of Newport News	<u>75,000</u>
Total Tax Revenues	\$125,000

### **Status of Prior Year Findings**

Audit reports should contain such a report if the prior year audit had reportable conditions or instances of non-compliance.

### **Schedule of Findings and Questioned Costs**

A Schedule of Findings and Questioned Costs should be included in the audit report that details federal catalog number, problems, auditor's recommendations, and questioned costs. If none, the Schedule should so state.

### **Reconciliation Schedules**

Audit reports should contain reconciliation schedules that reconcile audited revenues and expenditures with DMHMRSAS's 4<sup>th</sup> Quarter Report. See Example below.

Description	MH	MR	SAS	Admin	Other	Total
Per 4 <sup>th</sup> Qtr Report						

Accruals (List)						
Per      Audit Report						

**Notes:**

1. Three (3) separate reconciliations are needed: Total Revenues, Total Expenditures, and Federal Revenue.
2. Reconcile governmental funds only (exclude proprietary funds) if using the governmental model of financial reporting.
3. Indicate the date and version of the 4<sup>th</sup> quarter report used.

**Schedule of Insurance**

A Schedule of Insurance should be presented. The schedule should contain the information as indicated below.

Agent's Name	Coverage Desc.	Policy Number	Period Covered	Limits of Liab.	Deductible Amount	Premium Amount
-----	-----	-----	-----	-----	-----	-----

**Revised Reports**

When auditors uncover errors that affect previously submitted final quarterly fiscal reports, it is the responsibility of the CSB to promptly submit revised reports.

**Publication Requirement (Summary Statement)**

Section 2.1-164 of the *Code of Virginia* requires the publication of a summary statement of financial condition for multi-jurisdiction CSBs (applies to operating boards only).

The summary should be published in a newspaper of general circulation in localities that a CSB serves. This statement should be published at the time the audit report is issued. The following example should suffice to meet the code requirement.

Name of CSB	
Summary Statement of Financial Condition	
As of June 30, 200X	
Total Assets	\$ _____
Liabilities	_____
Fund Balance	_____
Total Liabilities & Fund Balance	_____
Revenues	_____
Expenditures	_____
Other Sources or Uses	_____
Net Change in Fund Balance	\$ _____
Detailed financial statements are available for inspection at:	
1. Name of CSB	
2. Address	

## **Independent Audit Requirements for Contract Agencies**

**Audit Reporting Requirements** CSB contract agencies (sub-recipients) are required to submit audited financial statements annually to DMHMRSAS. A-133 audits may have to be performed depending on the level of federal funding. Refer to Chapter 10 for additional information.

**Other Specific Guidelines** The AICPA Accounting and Audit Guides specify the following (as noted in Chapter 5, Accounting Standards):

1. If over 50% of revenue sources are from private sources, use "Audits of Voluntary Health and Welfare Organizations".
2. If less than 50% of revenues are from private sources, use "Audits of Certain Non-Profit Entities".

### **Additional Disclosures - CSB Contract Agencies**

**Introduction** Additional disclosures are requested for inclusion in the annual audit report for CSB Contract Agencies. Refer to the headings below.

**Funding Sources** The financial statements or notes should disclose the source of funding, in particular, from:

1. CSBs, if several CSBs fund the organization.
2. Federal grant funding (The organization should identify any federal funding that is passed through indirectly from the state, or that is received from the federal government).

**Notes**

The notes should be comprehensive in scope and provide useful information to the reader. This information should include but is not limited to:

1. Reporting entity – a description of the mission, nature of the entity, and services provided.
2. Basis of accounting (normally accrual basis).
3. Other notes necessary for GAAP presentation.

**Schedule of Findings and Questioned Costs**

A Schedule of Findings and Questioned Costs should be included in the audit report which appropriately details federal catalog numbers, problems, auditor's recommendations, and questioned costs.

**Presentation**

In addition to adhering to GAAP, the audit report presentation may be improved by:

1. Presenting it in a spiral bound report.
2. Including a table of contents and page numbers.
3. Designing pages to be read in a portrait orientation like a book.

## **Chapter 10: CSB Contract Agencies**

### **Table of Contents**

Introduction, 96

Accountability, 96

Definitions, 96

Financial Management, 96

Administrative Requirements, 97

## **Contract Agencies**

**Introduction** This section contains financial management and administrative requirements applicable to contract agencies that provide mental health, mental retardation, or substance abuse services through contractual arrangements with community services boards.

## **Accountability**

**Compliance per Performance Contract** Contract agencies will comply with the applicable provisions of the Performance Contract negotiated by the Department and CSB. These provisions include the asterisked elements in Exhibit B of the Performance Contract.

## **Definitions**

**Contract Agency** **CSB Contract Agencies** are generally private not-for-profit entities that provide services to a CSB usually through a grant or shared-cost arrangement involving significant amounts of resources and services. A contractual relationship may also be established with an agency of local government.

Example: The Children's Center (Contract Agency for Western Tidewater CSB)

**Purchase of Service (POS) Contracts** are contracts with individuals or organizations for the provision of specific services to a CSB, involving limited amounts of resources and services.

Example: An individual psychiatrist rendering service on a contractual basis. Also, an MR client may be rendered services on a POS contract in a group home or sheltered workshop.

Non-example: CSB employees rendering services to clients.

## **Financial Management**

**Principles for Determining Costs** Contract agencies will comply with principles for determining costs in calculating, negotiating, budgeting and reporting the costs of contractual services.



## **Standards of Financial Management**

The financial management systems of contract agencies must meet the following standards:

**Financial Reporting:** Accurate, current, and complete disclosure of the results of financially assisted activities must be made in accordance with the financial reporting requirements of the contract between the agency and the CSB.

**Accounting Records:** Contract agencies must maintain records that adequately identify the source and application of funds provided for financially assisted activities.

**Internal Control:** Effective control and accountability must be maintained for all grant and sub-grant cash, real and personal property, and other assets. Contract agencies must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

**Budget Control:** Actual expenditures or outlays must be compared with budgeted amounts for each grant or sub-grant.

**Allowable Cost:** Applicable cost principles, agency regulations, and the terms of contractual agreements will be followed in determining the reasonableness, allowability, and allocability of costs.

**Source Documentation:** Accounting records must be supported by appropriate source documentation.

**Cash Management:** CSBs must time advances of federal funds to their sub-grantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the CSBs.

## **Administrative Requirements**

**Introduction** This section contains administrative requirements applicable to all contract agencies that receive state generated and federal block grant funds from community services boards. Contract agencies that are funded only with local funds would not be subject to these requirements.

**Bonding and Insurance** The contract agency is expected to take reasonable precautions to protect itself against losses. This includes the following:

- Appropriate bonding
- Officer's Liability Insurance

- Professional Staff Liability Insurance
- Comprehensive Loss Insurance
- Fire and Theft Insurance
- Automobile Insurance
- Other appropriate insurance

<b>Record Retention</b>	The contract agency must retain all financial records for three years after audit. Additional information in reference to record retention can be obtained from the Library of Virginia's website at <a href="http://www.lva.va.us">www.lva.va.us</a> .
<b>Agency's Income</b>	All revenue generated or received by the contract agency for the services in its contract with the CSB must be used for the agency. These revenues, applicable to programs provided for the CSB, should be included on the revenue portion of the required reports. Sources which are not listed on the reports should be included on the respective "other" lines with a description of source.
<b>Financial Reporting</b>	<p>The contract agency should send the CSB the information about the services in its contract with the CSB necessary to complete the quarterly CSB Performance Report in time to meet the reporting deadlines specified in Exhibit C of the Performance Contract. This information should include the following:</p> <ul style="list-style-type: none"><li>▪ Category or sub-category of core services provided</li><li>▪ Units of service provided</li><li>▪ Number of clients served</li><li>▪ Static capacity</li><li>▪ Client characteristics</li><li>▪ Revenues</li><li>▪ Expenditures</li></ul>
<b>Grant Closeout Procedures</b>	<p>When it is anticipated that the CSB's agreement with the contract agency is to be terminated, the following procedures must occur, regarding the services in the agency's contract with the CSB:</p> <ol style="list-style-type: none"><li>1. Prepare an estimate of expenditures to be incurred after termination date or after current contract period.</li><li>2. Submit the listing to the CSB two months in advance of termination.</li><li>3. Submit to the CSB a request for close out funding if necessary or extension of the contract period.</li><li>4. Inventory all equipment acquired under contract.</li><li>5. Report the results of the inventory to the CSB and request disposition</li></ol>

instructions.

6. Submit final financial report.

**Procurement  
Standards**

Please refer to *CSB Procurement Procedures Manual* published by DMHMRSAS.

**Audit  
Standards**

Please refer to Chapter 9 of this guide for applicable audit requirements.

## **Chapter 11: Tax Considerations**

### **Table of Contents**

**Chapter 12:**  
**Cost Savings Opportunities**

**Table of Contents**

# Web Site References

American Institute of Certified Public Accountants: [www.aicpa.org](http://www.aicpa.org)

Association of Government Accountants: [www.agacgfm.org](http://www.agacgfm.org)

Auditor of Public Accounts: [www.apa.state.va.us](http://www.apa.state.va.us) (804) 225-3350

CSB Procurement Procedures Manual: [www.dmhmrzas.state.va.us/csb](http://www.dmhmrzas.state.va.us/csb) (804) 786-4512

Department of Treasury – Virginia: [www.trs.state.va.us](http://www.trs.state.va.us) (804) 225-2142

DMHMRSAS: [www.dmhmrzas.state.va.us](http://www.dmhmrzas.state.va.us)

General Accounting Office: [www.gao.gov](http://www.gao.gov)

Government Finance Officers Association: [www.gfoa.org](http://www.gfoa.org)

Internal Revenue Service: [www.irs.ustreas.gov](http://www.irs.ustreas.gov)

Library of Virginia: [www.lva.va.us](http://www.lva.va.us)

Office of Management and Budget – United States: [www.whitehouse.gov/omb/](http://www.whitehouse.gov/omb/)

Records Retention: <http://www.lva.lib.va.us/state/records/schedule/local-gs.htm>

Technical Bulletins: <http://www.dmhmrzas.state.va.us/Financial Planning/OFRCpub.htm>

Unclaimed Property Division (UCP) of the Virginia Dept. of Treasury Mail Office:  
[ucpmail@trs.state.va.us](mailto:ucpmail@trs.state.va.us)

Unclaimed Property: <http://www.trs.state.va.us/UCP/ucp.html>

Virginia Society of Certified Public Accountants: [www.vscpa.com](http://www.vscpa.com)

# Subject Index

- Administrative Services Office, 12
- Audit Reporting Deadlines, 87
- Audit Requirements, Contract Agencies, 83
- Audit Requirements, CSBs, 87
- Board of Directors, responsibilities of, 38
- Budget Office, 9
- Budgeting and Funding, 24
- Cash Management, 72
- Client Funds, 91
- Code References – CSBs, 15
- Community Information Systems and Data Management Office, 14
- Community Services Admin. Office, 14
- Continuing Professional Education, 39
- Contract Agencies, 96
- Definitions of CSBs, 22
- Desk Reviews, 52
- Donated Assets, 65
- Enterprise Fund Reporting Model, 54
- Executive Director, responsibilities of, 38
- Financial Review Process, 51
- Financial Services Office, 10
- Fiscal Director, responsibilities of, 38
- Fixed Assets, inventories of, 65
- Fixed Assets, acquiring of, 65
- Fixed Assets, disposing of, 65
- Fraud Reporting, 47
- Funding, CSBs, see Budgeting
- Governmental Health Care Reporting Model (See Enterprise Fund), 54
- Grants, 61
- Grants Management Office, 9
- Human Resources Office, CSB Services Section, 13
- Interest Expense, 91
- Internal Control, 45
- Internal Control Standards, 45
- Internal Control Tools, 47
- Investments, see Cash Management, 72
- Leases, Capital, 69
- Letter of Notification, 27-31
- Local Government Investment Pool (LGIP), 80
- Management Letters, 88
- Office of Financial Reporting and Compliance (OFRC), 10
- Performance Contract, 25
- Plans of Correction, 88
- Policies and Procedures, see Standard Operating Procedures
- Publication Statement, Summary Statement, 92
- Records Retention, 17
- Records Management, 17
- Reimbursement Office, 12
- Request for Proposals (See Technical Bulletins)
- Risk Management, 41
- Standard Operating Procedures, 40
- Statutes and State Board Policies, 15
- Tagging, 65
- Tax Exempt Status, 19
- Taxes, Utility, 19
- Technical Bulletins, 17
- Unclaimed Property, 18
- Uniform Cost Reporting, 59
- VARISK2, 42
- Warrants, 32-36
- Web Site References, 101

# **Appendices**



## **Appendix A:**

### **Community Services Board Financial Management**

Updated 4/26/89

Renewed 1/22/92

## **POLICY MANUAL**

State Mental Health, Mental Retardation and Substance Abuse Services Board Department of Mental Health, Mental Retardation and Substance Abuse Services

### **POLICY 6003 (fin) 87-5**

**Subject** Community Services Board Financial Management

**Authority** Board Minutes Dated April 29, 1987  
Effective Date May 27, 1987  
Approved by Board Chairman s/ James C. Windsor

**References** Section 37.1-10 and 37.1-199, Code of Virginia (1950), as amended  
State Board Policy No. 4021 (CSB) 86-18, Evaluation of CSB Administration and Programs

**Background** The State Mental Health, Mental Retardation and Substance Abuse Services Board has statutory for the promulgation of fiscal policies for community services boards.

Fiscal guidance to community services boards was originally based on the Department's "Funding Procedure for Community Services" issued in 1975. That document dealt with the grant award process and provided a suggested simple accounting system. Subsequent guidance was in the form of instructions for changes/additions issued by the Department.

The 1989 update calls attention to the fact that the policy, as originally promulgated, on April 29, 1987, required the Commissioner to issue to the CSBs, effective July 1, 1987, a Financial Management Standards and Accounting Procedures Manual that would address CSB members' oversight and fiduciary responsibilities and require, for each CSB, a comprehensive accounting system and a system of financial management information. The

manual, in compliance with Board's stated policy, was issued by the Commissioner on July 1, 1987.

**Purpose**

To establish a fiscal policy that the Department be responsible for ensuring adequate financial management of all community services boards through the provision of fiscal guidance, the evaluation of CSB fiscal operations and the accomplishment of necessary actions by the Department to ensure policy implementation.

**Policy**

It is the policy of the State Mental Health, Mental Retardation and Substance Abuse Services Board that the commissioner provide community services boards with the necessary guidance for ensuring that the CSB programs, both directly operated and contractual, are conducted with a level of financial management that will effectively utilize resources in accomplishing program goals and objectives and satisfy existing statutory and regulatory requirements.

It is further the policy of the Board that changes in the manual and other financial guidance provided to CSBs by the Department will incorporate appropriate principles/standards set forth by authorization sources in the field of governmental financial management. These sources will include the State Comptroller, the State Auditor of Public Accounts, the federal Office of Management and Budget and the Governmental Accounting Standards Board.

The Commissioner is responsible for ensuring CSB compliance with the financial management standards and procedures established by the Department for implementation of this policy.